

Corporate governance report

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Our board of directors



Sir Peter Hendy CBE
Chair

Appointed to the Board: 2015

Skills and experience

Sir Peter was previously commissioner of Transport for London (TfL) from 2006 to 2015, having served since 2001 as TfL's managing director of Surface Transport. He led, and played a key role in preparing for, the successful operation of London's transport for the 2012 Olympic and Paralympic Games. He was formerly deputy director UK Bus for FirstGroup plc and previously managing director of CentreWest London Buses. Sir Peter was also president of the International Association of Public Transport (UITP) from 2013 to 2015.

He started his career in 1975 as a London Transport graduate trainee. Sir Peter's experience in successfully leading urban transport in a world city is critical to understanding Network Rail and managing its complex relationships with stakeholders.

Sir Peter is a vice president of the Chartered Institute of Logistics and Transport, a fellow of the Chartered Institute of Highways and Transport and a fellow of the Institution of Civil Engineers. He was knighted in the 2013 New Year's Honours List, having been made CBE in 2006 for services to public transport and the community in London.

Current external appointments

Chair of London Freight Enforcement Partnership; Trustee of London's Transport Museum; Vice President of the London Bus Museum and Chair of London Legacy Development Corporation.

Committee membership

Safety, health and environment committee; nomination committee; remuneration committee.



Mark Carne CBE
Chief executive

Appointed to the Board: 2014

Skills and experience

Mark was appointed in 2014 and has been instrumental in driving change in the organisation, turning it into a devolved group of cost-competitive and customer-focused businesses. (Network Rail is now delivering almost a quarter of all infrastructure investment in the UK. This is the biggest investment programme in generations – £130m every single week – and it does this in a few hours at night so that the railway can keep serving 4.7m passengers, safely, every day.)

Mark has been a driving force behind the Digital Railway revolution which will see more trains running faster, more reliably and at lower cost on our existing infrastructure. Mark previously worked for Royal Dutch Shell plc and BG Group plc.

Mark is a fellow of the Institution of Mechanical Engineers and the Institution of Civil Engineers.

In February 2018, Mark Carne CBE indicated his intention to retire during 2018. In May 2018, it was announced that Andrew Haines OBE would be appointed as chief executive upon Mark's retirement.

Current external appointments

Independent governor of Falmouth University.



Jeremy Westlake
Chief financial officer

Appointed to the Board: 2016

Skills and experience

Jeremy was formerly senior vice president for finance at Alstom Transport in France, responsible for investor management, financial performance and control, and project finance. Previously he spent 14 years at Rolls-Royce in a range of senior finance and supply chain roles in the UK and the United States.

Jeremy is a fellow of the Institute of Chartered Accountants in England and Wales and has a master's in manufacturing from University of Cambridge.

Board of Directors continued



Rob Brighthouse
Non-executive director

Appointed to the Board: 2016

Skills and experience

Rob has 40 years' experience in the rail industry and was formerly managing director of Chiltern Railways where he was responsible for the operation and safety of the passenger rail service between London and the West Midlands. Rob first joined the rail operator in 2000 as projects director, where he led the Evergreen 1 and 2 infrastructure projects as well as the building of Chiltern's Wembley depot. Rob brings rail industry experience to the Board and understands the complexities facing the train operating companies.

Rob is a fellow of the Institution of Civil Engineers and the Institute of Directors and is a chartered director. Rob holds an MBA from Aston Business School.

Current external appointments

Chairman of the shadow East West Rail Company; chairman of the Advisory Board at Aston Business School; honorary trustee of LIFE Trust; and chairman of Snap Travel Technology Ltd.

Committee membership

Safety, health and environment committee; audit & risk committee.



Richard Brown CBE
Special director and non-executive director

Appointed to the Board: 2015

Skills and experience

Richard was chief executive of Eurostar UK from 2002 to 2011, and the chair until June 2013. He was previously commercial director and main board member of National Express Group plc, where he set up its trains division, which at the time was the largest UK passenger franchise operator. Richard has 40 years' experience in the rail industry and was a director of Intercity before privatisation. Richard brings wide experience of planning and operating railways.

Richard has honorary doctorates from the Universities of Derby and Westminster. He was appointed CBE in 2007 for services to transport.

Current external appointments

Chair of Catalyst Housing Limited; deputy chair of HS2 Ltd; vice president of the Chartered Institute of Logistics and Transport.

Committee membership

Nomination committee; remuneration committee.



Sharon Flood
Non-executive director

Appointed to the Board: 2014

Skills and experience

Sharon has experience in a number of senior finance and strategy roles, most recently as a group chief financial officer of Sun European Partners LLP, an international private equity investment advisory firm. From 2005 to 2010 she was finance director of John Lewis department stores. Sharon therefore strengthens the finance experience and customer focus on the Board.

Sharon holds an MBA from INSEAD and is a fellow of the Chartered Institute of Management Accountants.

Current external appointments

Non-executive director of Crest Nicholson Holdings plc; trustee of the Science Museum Group; présidente du conseil de surveillance of S.T. Dupont; board member of Pets at Home.

Committee membership

Chair of audit & risk committee; chair of treasury committee.

Board of Directors continued



Chris Gibb
Non-executive director

Appointed to the Board: 2013

Skills and experience

Chris has worked in the rail industry for 37 years. After a career of operational roles in England, Scotland and Wales he became managing director, Wales & Borders Trains. He joined Virgin Trains as managing director, CrossCountry, before becoming chief operating officer in 2007, responsible for Virgin's West Coast safety, operations, stations and customer service. He retired from this role in November 2013. Chris brings broad industry-specific experience to the Board.

Current external appointments

Chairman of Thameslink 2018 Industry Readiness Board; member of HS2 Independent Assurance Panel; member of Transport Strategic Advisory Board, Welsh Government; visiting lecturer at University of Birmingham.

Committee membership

Chair of safety, health and environment committee; chair of Network Rail Property Board.



Silla Maizey
Non-executive director

Appointed to the Board: 2016

Skills and experience

Silla has extensive experience in the aviation sector, built up over 34 years. Silla was most recently British Airways' (BA) Managing Director of Gatwick, and she was part of BA's executive leadership team. Previously, Silla was BA's Customer Director.

Silla brings a range of experience and insights to the Board, from operations to procurement, the shaping of the customer proposition and business reorganisations.

Silla is a fellow of the Chartered Association of Certified Accountants and a fellow of the Chartered Institute of Purchasing and Supply.

Current external appointments

Chair of NHS Business Services Authority; Non-executive director of John Menzies plc; Crown Commercial Services and Saffron Solutions Limited.

Committee membership

Audit & risk committee; treasury committee.



Michael O'Higgins
Non-executive director

Appointed to the Board: 2012

Skills and experience

Michael has significant public sector and commercial experience. Michael has been chair of the Pensions Regulator, the NHS Confederation and the Audit Commission, managing partner at PA Consulting Group and a partner at PriceWaterhouse. He was also chair of Centrepoin, the youth homelessness charity. Michael was previously a non-executive director and chair of audit at HM Treasury. He has held visiting academic appointments at the London School of Economics, the Australian National University and Harvard University. The Board recognises that Network Rail's people are its major asset, and Michael brings his experience in this area and also of government relations to the Board.

Current external appointments

Chair of Local Pensions Partnerships, of Channel Islands Competition and Regulatory Authorities, and of Calculus VCT plc; member of advisory board of Liaison Financial Services Limited and of JustAccounts Limited.

Committee membership

Nomination committee; chair of remuneration committee.

Board of Directors continued



Mike Putnam
Non-executive director

Appointed to the Board: 2018

Skills and experience

Mike has worked in multiple businesses across development, construction and services sectors and he has over 25 years' experience at senior management level.

Mike was President and CEO of Skanska UK plc from October 2009 until May 2017. He was previously executive vice president and board director of Skanska UK plc from June 2001 to September 2009 and he was responsible for leading the infrastructure and then building and construction businesses.

Throughout Mike's career, he has been closely involved with the successful delivery of many high-profile projects and programmes. Over the last ten years, Mike has been active as a non-executive director of several independent, decentralised international business units including: Sweden (Deputy Chairman); Poland; USA & Norway and recently Skanska UK.

Mike is a Chartered Engineer and a fellow of both the Institution of Civil Engineers and the Royal Institution of Chartered Surveyors.

Current external appointments

Non-executive director of Southern Water Services; member of the Supervisory Board of Arcadis NV, member of the Construction Leadership Council; and member of Association of Consulting Engineers Advisory Board.

Committee membership

Safety, health and environment committee.



Bridget Rosewell OBE
Non-executive director and senior independent director

Appointed to the Board: 2011

Skills and experience

Bridget is an economist by background. She is Chair of Atom Bank, Chair of the DVSA and a commissioner for the National Infrastructure Commission. She is senior adviser of Volterra producing economic analysis across a range of sectors, especially for major infrastructure projects. Past roles have included being chief economist and chief economic adviser to the Greater London Authority and executive chair of Business Strategies Ltd, which was subsequently sold to Experian. Bridget brings financial and economic expertise to the Board.

Bridget was awarded an OBE in 2013 for her services to the economy and is a fellow of the Institution of Civil Engineers.

Current external appointments

Non-executive chair of Atom Bank; member of the With Profits Committee for the Royal London Group; Chair of the Driver and Vehicle Standards Agency; a commissioner on the National Infrastructure Commission; a member of the DfT's audit & risk committee; Senior adviser of Volterra.

Committee membership

Chair of nomination committee; audit & risk committee; treasury committee.



Stuart Kelly
Group general counsel and company secretary

Skills and experience

Stuart is responsible for the Legal and Corporate Services function. Stuart has extensive in-house legal and corporate governance experience gained within the listed environment, having joined the company from Severn Trent plc where he held the position of deputy general counsel.

Stuart started his in-house legal career with Network Rail, prior to which he was a solicitor in private practice. Stuart is also a qualified civil engineer having begun his career working for VolkerFitzpatrick.

Corporate governance report

At Network Rail we believe that good corporate governance is essential to the continued success of the business and for improving both train and financial performance. Our internal governance processes are continually reviewed and, where deemed necessary, strengthened. During 2017/18 we have further enhanced our governance structure.

Governance is evolving with the changing structure of the business

Route devolution continued to evolve during 2017/18 and is embedding well. We now have nine fully devolved route business that operate independently within a national policy and control framework. The nine routes are accountable for, and have delegated authority to manage their operating, maintenance, renewals and business activities, having regard to the requirements of their train and freight operating customers and passenger profiles.

The industry supervisory boards comprising Network Rail, train and freight operating companies, Transport Focus and other key stakeholders are bringing track and train closer together as they continue to evolve. The rail industry acknowledges these boards' role in aligning rail industry action plans, improving joint planning and communications, ensuring delivery of railway improvements across the routes for the benefit of passengers and driving improvements to passengers' experience.

During 2017/18, the Route Supervisory Board for the Western route continued to evolve and similar boards were established for the East Coast Main Line, Wales and Borders, West Coast Main Line and Chilterns. Each of these boards is independently chaired.

During 2018/19 other route supervisory boards will be established.

Strategic Business Plan for Control Period 6 (2019-2024)

In October 2017, the Secretary of State issued the Statement of Funds Available (SoFA), outlining the level of funding available for CP6.

Throughout 2017/18 and leading up to and in response to the SoFA, Network Rail developed its Strategic Business Plan for CP6 (SBP). The SBP provides a detailed explanation of how Network Rail will spend efficiently the funds that the Government has committed and sets out what Network Rail thinks can be achieved (outputs and outcomes) and how that might be done using the funds available.

The SBP was built from the bottom up, and is based on the strategic plans created by each route and the other business functions. In building their plans, the routes engaged with their customers to understand their priorities and to develop plans that, wherever possible, meet customers' expectations.

Each stage of the plan was reviewed by the Board, supported by its business plan committee. That committee is attended by the Network Rail chair, a number of non-executive directors, the chief executive and chief financial officer.

The executive committee also reviewed each route's plan and the overall SBP after each of the individual submissions. A number of route and central assurance reviews were also

undertaken throughout the process.

These reviews balanced providing strategic direction on the SBP from the centre, and ensuring that the routes owned their plans and felt able to deliver them. They also gave the Board assurance on the progress, challenge and rigour involved in developing the SBP and route plans.

The Office of Rail and Road (ORR) commissioned an independent review of Network Rail's planning process, including scrutiny and challenge of the plans and the assumptions underlying them. That review, by Nichols, concluded that the strategic level planning was good, supported by a well-managed process that was overseen and run by the Network Rail's Business Review team.

The SBP was submitted to the ORR on 9 February 2018. Having assessed Network Rail's SBP the ORR published its Draft Determination on 12 June 2018, following which there will be a period of consultation.

It is anticipated that the ORR will publish its Final Determination in October 2018. That will set out the outputs that Network Rail, each of the routes and the System Operator will need to deliver between 2019 and 2024, along with the money that the ORR thinks will be needed to deliver this work.

Each route and the System Operator will also have balanced scorecards with performance targets created in consultation with train and freight operators. This will ensure that responsibilities to customers, and ultimately passengers, are appropriately managed.

With the introduction of separate regulatory settlements for each route and the System Operator, Network Rail is changing its existing business performance management and governance framework executive meetings. This new structure will evolve during 2018/19 so as to provide a good overall governance base for the start of CP6.

Building public trust

As part of Network Rail's commitment to transparency, minutes of the company's Board meetings are available on our website. Additionally, Network Rail voluntarily publishes a wide range of data on its website.

At Network Rail we also aim to communicate with our stakeholders as transparently as possible. This openness in reporting has been independently recognised and in 2017, for the second consecutive year, Network Rail won PwC's "Building Public Trust Award: Excellence in Reporting in the Public Sector" (in association with the National Audit Office).

Our risk reporting was praised, and the clear descriptions of the activities undertaken to limit our environmental and social impacts were acknowledged. Network Rail's openness about the challenges it faces and the honesty in our up-front

Corporate governance continued

disclosure of instances where targets had been missed was commended.

This validation of our efforts to be transparent is welcomed. Network Rail believes that transparency in both how we work as a company and how we work with stakeholders is integral to our success. Therefore we have included transparency as a main theme in our SBP for CP6.

The Network Rail Board

During 2017/18 the Board focused much of its time on:

- Financial efficiencies.
- CP5 financial performance.
- Safety.
- Transformation and efficiencies programme.
- Strategic Business Plan for CP6.
- CP6 financial control framework.
- Third party funding and financing.
- Train performance.

- Digital railway.
- Disposal of non-core assets.

During 2018/19 it is anticipated that the Board's focus will be on:

- Managing train and financial performance in the last year of CP5, to set up for the best possible start to CP6.
- Further developing policies on diversity and inclusion.
- Review the introduction of the May 2018 timetable and the preparation for the December 2018 timetable change



Sir Peter Hendy CBE, chair

27 June 2018

Compliance with corporate governance requirements

The Board considers that the company has complied with the UK Corporate Governance Code 2016 (Code) throughout the year, other than the provisions it cannot comply with due to its status as an arm's length government body. These include:

- B.2.4 and B.3.1 as to the appointment of the chair. The chair's appointment is a decision made by the Secretary of State in accordance with the Commissioner for Public Appointments' principles. All other elements of this Code provision are complied with.
- C.3.2, C.3.7, C.3.8 as to the appointment, re-appointment and removal of the independent auditor. Under the terms of the Framework Agreement (FA) between the company and DfT, the Comptroller and Auditor General assisted by the National Audit Office acts as the independent auditor of the company. All other elements of these Code provisions are complied with (where applicable).
- D.2.2 under the terms of the FA the remuneration of the chair is agreed by the Secretary of State.

In addition, the Board is mindful of compliance with the Corporate Governance in Central Government Departments: Code of Good Practice (Government Code).

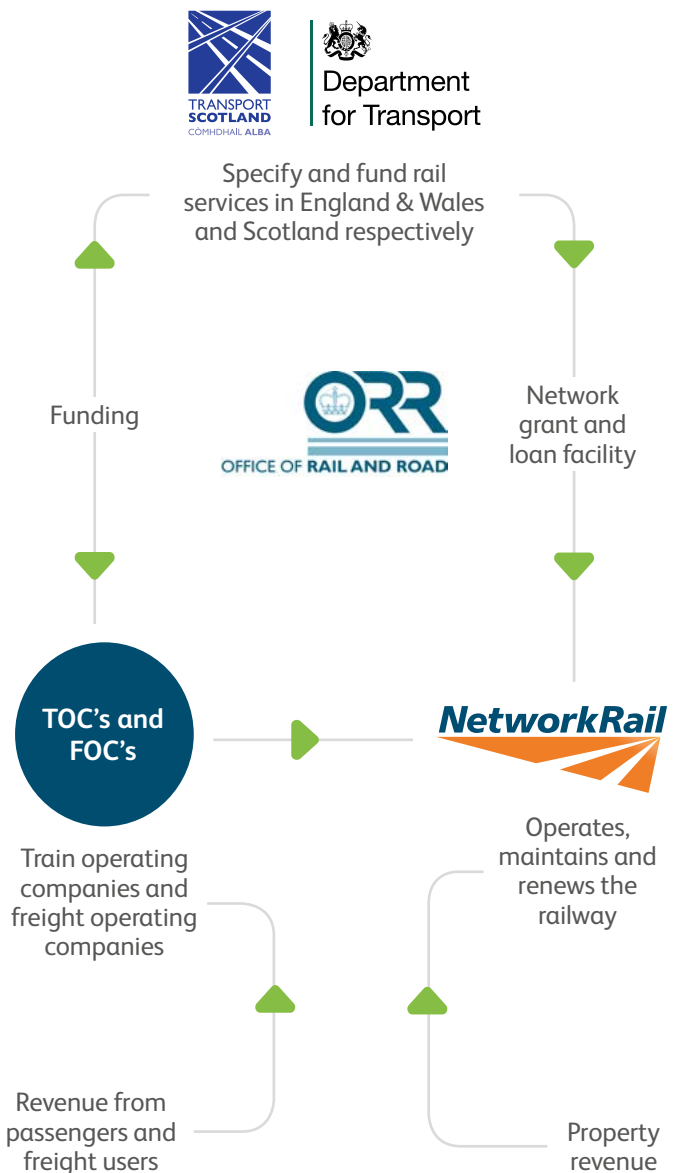
Leadership and purpose

Network Rail is an arm's length government body, which manages Britain's railway infrastructure within effective regulatory and control frameworks. The Board is accountable to the Secretary of State for Transport.

The relationship in terms of financial management and corporate governance between Network Rail and the DfT is outlined in the Framework Agreement. The FA is available on Network Rail's website: www.networkrail.co.uk. Additional arrangements are in place with the Scottish Government on delivery of specified outputs on the Scottish rail network.

Network Rail works with the DfT and the Office of Rail and Road (ORR) to agree what Network Rail must deliver during each five year control period, and the amount of money available for it to deliver its commitments.

Network Rail's relationship with the DfT and ORR



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The Board's remit and responsibilities

The Board is accountable to the Secretary of State who is the sole member of the company.

The Board is responsible for establishing the strategy to deliver the outcomes required in each control period and for appropriate human and financial resources being in place.

The remit of the Board is set out in the Matters Reserved for the Board, which can be found on Network Rail's website: www.networkrail.co.uk.

The Board is mindful of the Code of Conduct for Board Members of Public Bodies, the 7 Nolan Principles of Public Life, the Civil Service Code and the importance of delivering value for money in its decision-making process. The 7 Nolan Principles of Public Life can be found on the Government website: gov.uk/government/publications/the-7-principles-of-public-life

The Board has delegated a number of powers to its committees.

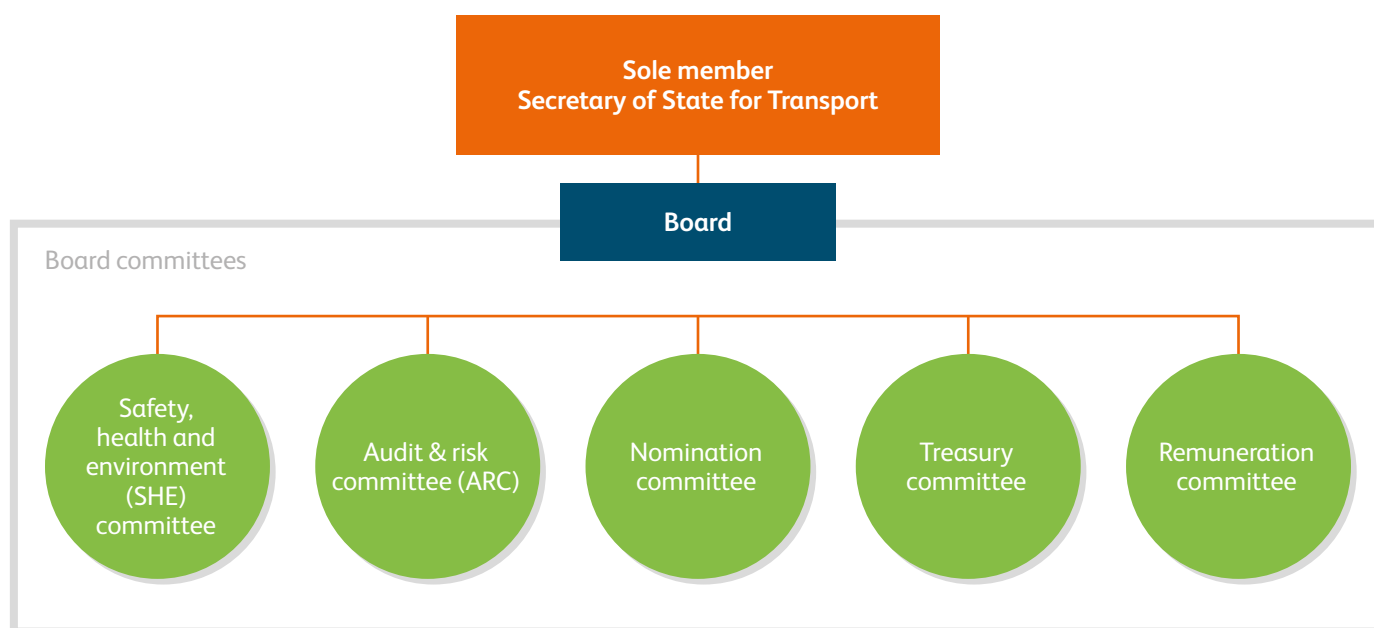
The audit and risk committee, on behalf of the Board, reviews the group's risk management strategy, risk profile and risk appetite. It also reviews the internal control structure, processes and their effectiveness. It then makes recommendations to the Board.

The remuneration committee has delegated authority from the Board to formulate the group's remuneration policy and strategy, which is designed to attract and retain leaders of the necessary calibre.

The nomination committee leads the process for Board appointments (other than for the chair and special director) and makes recommendations on their appointment to the Secretary of State for Transport.

The full powers of these committees are set out in their terms of reference, which can be found on Network Rail's website: www.networkrail.co.uk. Abbreviated versions are included in each committee's report on pages 61 to 85.

Network Rail board and committee structure



The executive committee

The executive committee, comprising the chief executive, chief financial officer and nine other senior executives, is responsible for the day-to-day management of the company. The committee meets on a regular basis to consider strategic and operational matters.

The biographies of the executive committee members can be found on Network Rail's website: www.networkrail.co.uk.

Board composition and role

At the date of this report, the Board consisted of one non-executive chair, two executive directors and eight non-executive directors (NEDs).

Photographs and biographies of the Board setting out their skills and experience can be found on pages 49 to 52.

Chair - Sir Peter Hendy CBE

Responsible for leading the Board, its effective functioning and promoting the highest standards of corporate governance. Encourages all directors to actively contribute to Board meetings and sets the conditions for constructive relations between the executive directors and NEDs. Represents Network Rail at its highest level and works with the chief executive to develop strategic relationships with the customers of NR, DfT, HM Treasury, Parliament, the Cabinet Office, Transport Scotland, Welsh Assembly Government and other stakeholders. Reviews performance of the NEDs.

It was envisaged that the chair's contractual commitment to Network Rail would reduce to a minimum of two days per week following his initial commitment of four days per week. However, recognising the complicated range of issues that

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the company faces, the Secretary of State agreed to alter the chair's contractual commitment to Network Rail to three days per week until 15 July 2019. Sir Peter Hendy CBE has confirmed that his other activities can be achieved without detriment to his duties to Network Rail.

Sir Peter Hendy CBE receives health care benefits from Network Rail. Further information can be found in the remuneration report on page 79.

Senior independent director (SID) - Bridget Rosewell OBE

Acts as a sounding board for the chair and serves as an intermediary for the other directors when necessary. Responsible for the chair's performance review. Available to the Secretary of State if he has concerns where contact through the chair has failed to resolve an issue or for which such contact is inappropriate.

Special director - Richard Brown CBE

Appointed by the Secretary of State. Responsible for communicating the views of the Secretary of State and the DfT's wider strategic statutory and fiduciary interests to the Board, whilst acting in accordance with his duties as a NED.

Chief executive - Mark Carne CBE

Responsible for setting the strategic direction of the company and for the company's performance. He keeps the Board informed and brings to its attention all matters that materially affect, or are capable of materially affecting, the achievements of Network Rail. Provides clear and visible leadership in business conduct and promotes the requirement that all executive committee members and employees are exemplars of the company's values. Accountable to the Board for all elements of NR's business, and specifically for safety performance. Additionally, he is the accounting officer for the company.

In this role, the chief executive is personally accountable to parliament for safeguarding the public funds available to Network Rail, for ensuring regularity and propriety, value for money and feasibility in the handling of those public funds, for the day-to-day operations and management of Network Rail and for signing the accounts, the annual report and the governance statement. In addition, he is required to ensure that Network Rail is run following the principles, rules, guidance and advice set out in Managing Public Money.

The accounting officer is supported by the Board for the discharge of his obligation in Managing Public Money, for the proper conduct of business and maintenance of ethical standards. The internal audit function also supports the accounting officer. The director of risk and assurance provides his audit opinion to both the accounting officer and the audit and risk committee. The opinion detailed the overall adequacy and effectiveness of Network Rail's framework of governance, risk management and control. (For further details on the internal audit function and on the audit and risk committee, see pages 63 to 69).

Chief financial officer - Jeremy Westlake

Responsible for leading NR's finance function which includes treasury, internal audit and risk, planning and regulation, long-term planning and legal and corporate services.

Independent non-executive directors - Rob Brighouse, Sharon Flood, Chris Gibb, Silla Maizey, Michael O'Higgins and Mike Putnam

The non-executive directors combine broad business and commercial experience from the rail and other industry

sectors. They bring independence, external skills and challenge to the Board. This is critical for providing assurance that the executive directors are exercising good judgement in the delivery of strategy and decision-making.

The Board reviews the independence of its non-executive directors as part of the Board Effectiveness Review. All bar one non-executive director has served on the Board for less than six full years. Bridget Rosewell OBE has served seven years. The Board considers that each of the NEDs is independent of the company.

With regard to the guidelines on the meaning of 'independence' as set out in the Code, it is appropriate to disclose that Rob Brighouse, Richard Brown CBE and Chris Gibb are beneficiaries of the Railway Pension Scheme (RPS). Over 100 companies from the rail industry participate in RPS. The scheme is run by independent trust managers, with trustees drawn from across the membership of the scheme. Given this structure, the Board considers that Rob Brighouse, Richard Brown CBE and Chris Gibb are independent, as Network Rail is only one of many contributing companies to RPS.

Links to the statements of responsibility for each of the chair, chief executive, SID and the NEDs can be found on the Network Rail website.

Group general counsel and company secretary - Stuart Kelly

Provides advice and support to the Board, the chair and other directors, and ensures the timely flow of information. Responsible for the Board's training and development. Ensures that corporate governance practices are complied with. The appointment and removal of the company secretary is a matter for the Board as a whole.

Attendance at meetings

The Board met nine times during 2017/18. Two strategy meetings were also held.

Directors' attendance at Board meetings for the year ending 31 March 2018 is shown in the table below. Non-executive directors are also required to attend various committee meetings, and their attendance is indicated in the Board committee reports on pages 61 to 85.

	Total
Rob Brighouse	9/9
Richard Brown CBE	8/9
Mark Carne CBE	9/9
Sharon Flood	9/9
Chris Gibb	9/9
Sir Peter Hendy CBE	9/9
Silla Maizey	8/9
Michael O'Higgins	9/9
Mike Putnam ¹	2/2
Bridget Rosewell OBE	8/9
Jeremy Westlake	9/9

¹Mike Putnam was appointed to the Board on 8 January 2018

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Board recruitment and induction

During the year under review, Mike Putnam was appointed as a non-executive director and a member of the safety, health and environment committee.

A comprehensive induction programme exists for newly appointed directors. They are also provided with key corporate, strategic and financial documents. Their induction also includes individual meetings with Board members, the company secretary and other key senior management.

The appointment process for Mike Putnam and details of his induction can be found on page 71.

Professional development, training and support for directors

The Board as a whole participates in a range of training and development sessions each year. At each Board meeting a route managing director updates the Board on the key issues affecting their route. In addition, an executive committee member attends each Board meeting to provide an update on their function or service. In addition, directors regularly receive relevant corporate governance and legal updates as appropriate.

During 2017/18, three non-executive directors including the chair completed the company's diversity and inclusion training to become Diversity Champions.

The directors have access to the advice and services of the group general counsel and company secretary, who is responsible for compliance with Board procedures and provision of adequate information to the directors in a timely manner. Directors have the right to seek independent professional advice at reasonable expense to Network Rail.

Succession planning

The Board reviewed the succession planning process with particular focus on senior key roles in the business. The Board recognises that effective talent management programmes and the enhancement of diversity and inclusion across all levels of the organisation are essential for the delivery of the company's long-term strategy and objectives.

To support the Board's succession planning work, members of the executive committee and the route managing directors regularly attend Board meetings to update the Board on their areas of the business. This not only assists the Board's understanding of the business, but provides development opportunities for those presenting to the Board.

Culture

The Board is responsible for the stewardship of the company, overseeing its conduct and culture, to create sustainable value for the benefit of a wide group of stakeholders.

The Board is instrumental in shaping a caring culture, leading by example and embedding this culture across the entire company. The Board wants to create an organisation that is open, diverse and inclusive, and one that benefits from the innovation and creativity that diversity brings. Network Rail actively encourages structured continuous improvement through its Better Every Day initiative, and the Board actively demonstrates its safety vision of 'everyone home safe every day'.

It is the Board's ambition to create a culture of wellbeing. It wants to reduce workforce injuries by more than 50 % and mental health related sickness absence by 30 % by the end of CP6.

The Board is committed to ensuring dignity and showing respect for our people. We therefore want to make sure that there are no more train toilet discharges to track and that proper changing facilities for colleagues of all genders exist at all locations by the end of 2019.

It is the Board's aim to increase the number of women across all levels in a range of technical and professional roles by 50 % by the end of CP6. Gender balanced recruiting of apprentices and graduates will be part of this overall drive for gender diversity.

Network Rail will be known as a company where our people work in an environment that allows everyone a fair opportunity to reach their personal potential. We will improve management training, so that our managers have the right skills to lead and inspire their teams.

We also want to have teams who care for the environment. By the end of CP6, we will have reduced our energy consumption by 18 %. We will also focus on enhancing biodiversity on Network Rail land and being great neighbours to lineside neighbours.

We simply want to become a great employer of great people working in great teams. The Board believes that by committing ourselves to all of the above, we can fulfil our ambitions.

Board and executive committee diversity

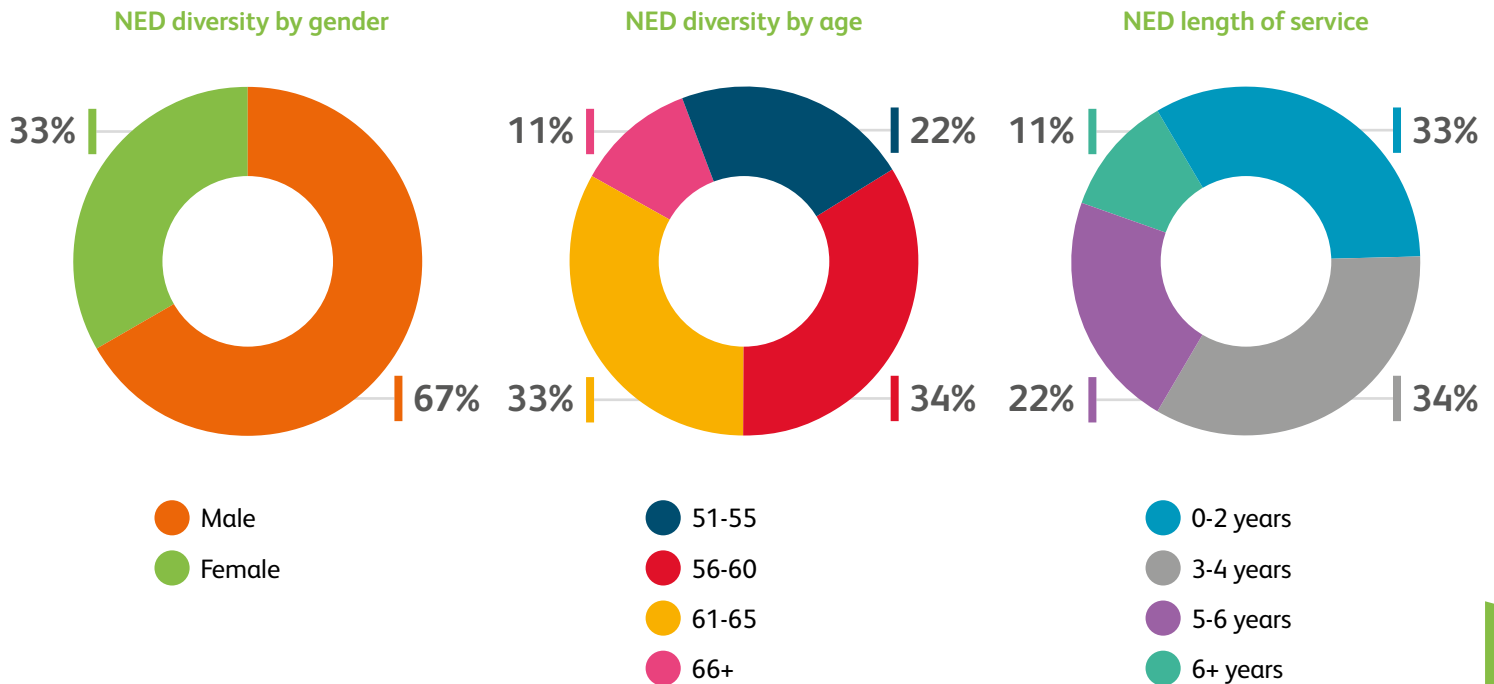
Network Rail's Board comprises nine non-executive directors and two executive directors. Of the whole Board, 73 % are male, and 27 % female. This changes to 67 % male and 33 % female when assessing solely the non-executive directors.

In terms of gender diversity of the executive committee, at the year-end that committee's membership comprised 64 % male and 36 % female executives. Details about workforce diversity can be found on page 35, ('Great people, great teams' section).

The Board is working to develop its policy on diversity and inclusion, particularly in terms of widening the definition of diversity beyond gender.

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The below charts show the composition of the NEDs by sex, age, and length of service:



Election and re-election of directors

Directors are subject to (re-)election at the 2018 AGM. All directors act in good faith, for the long-term benefit of Network Rail and continue to perform effectively.

Directors' conflicts of interests

The Board operates a policy to identify and, where appropriate, manage potential conflicts of interests that directors may have. Each Board meeting begins with disclosure of potential conflicts of interests. Where such a conflict exists, the director in question would be asked to refrain from any decision-making in relation to that interest. At the date of this report, there were no conflicts of interest.

It is however appropriate to disclose:

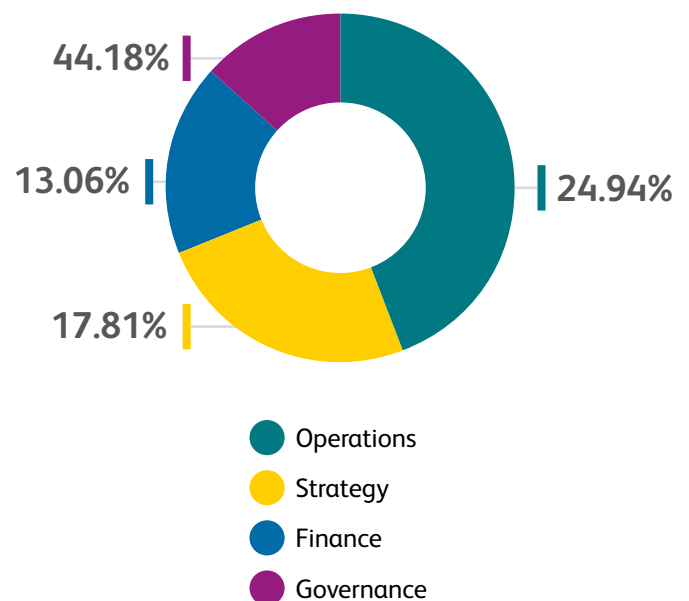
- Rob Brighthouse is chair of the Shadow East West Rail project.
- Richard Brown CBE is deputy chair and a non-executive director of HS2 Limited and a member of the DfT's Rail Expert Advisory Board.
- Chris Gibb is chair of the Thameslink 2018 Industry Readiness Board and a member of the DfT's Rail Expert Advisory Board.
- Bridget Rosewell OBE is a commissioner at the National Infrastructure Commission and a member of the DfT's audit & risk committee.
- Sir Peter Hendy CBE is chair of the London Legacy Development Corporation.

Directors and officers (D&O) liability insurance

Network Rail maintains D&O liability insurance. Network Rail did not indemnify any directors during 2017/18.

Board activities

The chart below outlines the key activities that the Board reviewed during 2017/18.



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Board effectiveness

The Board is committed to the highest standards of corporate governance. In 2014, IDDAS undertook a full Board evaluation. This was followed by two light touch reviews in 2015 and 2016. In line with the best practice, another light touch review by Independent Audit was undertaken during 2017/18.

As in previous years, the process involved one-to-one interviews with the Board members and the group general counsel and company secretary. A number of executive committee members, colleagues at the DfT and UK

Government Investments, and the chairman of the ORR were also interviewed. Independent Audit also observed one Board meeting and reviewed the associated meeting papers. Independent Audit presented its findings to a subsequent Board meeting.

The key findings of Independent Audit's board effectiveness review are set out below, together with the actions being taken to address the findings.

Board Effectiveness Review 2017 Key recommendations	How the recommendations are being addressed
Update the company's talent matrix and seek to upskill staff with the potential to take on leadership roles.	A new head of talent and resourcing has joined Network Rail and is working to improve the identification and development of staff at all levels who have the potential to become leaders.
Continue to discuss the detailed business plan outlining how CP6 funding will be used to develop the railways to 2024.	Network Rail's business planning committee and the Board have held, and will continue to hold, regular detailed discussions on the Strategic Business Plan for CP6 and the funding available. From the first year of CP6 the funding and development of the railway to 2024 will fall within the remit of other meetings.
Further develop governance arrangements to ensure full articulation between the centre and the routes, as well as a common understanding of the division of responsibilities between both parties.	A new performance and business management meeting framework was introduced from 1 April 2018 to align the meetings structure to the matrix organisation of the business.
Strengthen communication between the centre and the routes by creating more opportunities for interaction and feedback and a means to share best practice between route managing directors.	This new structure includes a series of meetings between senior leaders in the routes, the route support functions and the group functions. The 2018/19 financial year is being used to test and develop the new meeting structure so that improvements can be implemented before the start of CP6.
Accelerate culture change across the organisation and ensure regular reporting to the Board.	A number of workstreams are underway that will create culture change within the business. Progress on those workstreams will be reported to the Board at appropriate intervals.

During 2017/18 Network Rail undertook internal reviews of the effectiveness of the safety, health, environment committee (SHE), the audit & risk committee and the property supervisory board. The reviews required committee members and employees associated with those committees to complete anonymous questionnaires and/or one-to-one interviews. The company secretariat team analysed the results, discussed the findings with the appropriate chair, and the committee or Board as a whole. Action plans to address any issues raised have been or are being developed.

Stakeholder engagement

The directors are legally obliged to take account of the impact on the company's stakeholders when reaching decisions. Specifically, the directors must have regard to the likely consequences of any decision in the long term, the interests of

the company's employees and the impact of the company's operations on the community and the environment.

Information on how Network Rail engages with the community and lineside neighbours and how it seeks to reduce its impact on environment can be found on pages 35 to 38 (sections 'Great people, great teams' and 'Being responsible').

The company is monitoring corporate governance proposals for increased engagement with employees and other stakeholder groups and will review its existing processes of engagement during 2018/19.

Corporate governance continued

Special Member

The Secretary of State for Transport is Network Rail's sole member. In that capacity, and as Special Member, the Secretary of State has certain rights, as set out below.

Rights	Detail of these rights being exercised in 2017/18
To appoint and remove the chair of Network Rail.	N/A
To approve the Board's suggested candidate for chief executive of Network Rail.	N/A
To appoint a special director of Network Rail.	During the year the special member decided to appoint Richard Brown CBE as special director for a further year.
To be consulted on non-executive director appointments.	Network Rail consulted with the DfT in relation to the appointments of Mike Putnam and David Noyes.
To hold regular meetings with the chair, to discuss corporate strategy and raise concerns.	The chair regularly meets with the SoS and the Permanent Secretary of the DfT.
To approve the three-yearly Remuneration Policy for executive directors of the company.	N/A
To set the pay for the chair and non-executive directors.	The remuneration of the chair of Network Rail was agreed by the DfT, when his contracted number of working days was reviewed.

The Annual General Meeting (AGM)

The formal business of the AGM is set out in a number of separate resolutions to be considered at the meeting. The company's sole member, the Secretary of State for Transport, is provided with a copy of the notice of meeting, alongside the annual report and accounts (as is the National Audit Office). The Secretary of State can vote either for or against a resolution, or can withhold his vote (although a withheld vote is not considered to be a vote in law). Final voting figures are announced to the London Stock Exchange.



Sir Peter Hendy CBE, Chair
27 June 2018



Mark Carne CBE, chief executive
27 June 2018



Safety, health and environment committee report

I am pleased to present the committee's report on its activities over the past year, alongside its anticipated activities for 2018/19.

Overall there has been continuing improvement in safety performance over the past year; we achieved our corporate safety targets apart from the close call close out rate target. More than ten years have elapsed since the last passenger or workforce fatality as a result of a train derailment or collision, sustaining the UK's position as one of the safest major rail networks in Europe. Significant progress has been made in implementing the risk reduction work streams, although several milestone targets were not achieved as originally planned. There were a number of derailments in 2017; notably, a freight train north of Ely, the partial derailment outside London Waterloo Station, the partial derailment at Paddington Station and the derailment near Wimbledon. These incidents are a reminder of train accident risk potential and the importance of implementing effective risk-based controls.

In terms of workforce safety (including our contractors), we had applied a 10% reduction to the previous year's lost time injury frequency target and we have achieved this target. There has been a decrease in the number of near miss events involving the workforce. Sadly, a contractor died in an accident at a station site in Scotland on 5 June 2018. An investigation is underway.

A number of workforce safety improvement initiatives were implemented and progress has been monitored during 2017. The programme to install vehicle monitoring systems to over 7,000 road vehicles has progressed well and this has significantly reduced the number of speeding offences and the related safety risk. The revised company standard in respect of planning and delivering safe work for the workforce working on or near the railway line was rolled out in September 2017 and a robust process is in place to monitor compliance, including reporting to this committee and to the executive committee.

The reporting of close calls continues to highlight where action can be taken to address unsafe conditions or acts and over 259,000 close calls were reported throughout the year. It is recognised that slips, trips and falls remain a significant area to address where the main underlying cause is poor housekeeping at sites.

Fifty-five level crossings have been closed in the last year and a small number have been downgraded in legal status. All ten of the top ten level crossing milestones were closed as planned.

Each train operator has a Signals Passed at Danger (SPAD) mitigation and reduction programme targeted at the underlying causes of the SPADs. The routes review those plans with the operators and monitor trends in SPAD numbers, risk and signals that have been involved in multiple SPADs. These plans and actions have a good record in reducing SPAD numbers in the long term, containing and correcting any adverse trends, and mitigating the risks of collision as a consequence of SPADs.

The committee met four times in 2017/18, including a site visit to the Sudbrook Severn Tunnel pumping station in South Wales in April 2017, meeting frontline staff to gain insight into the current safety and major incident arrangements for the tunnel. The committee discussed the report into the accident in December 1991 and the investigation recommendations.

The committee reviewed its terms of reference to ensure they were fit for purpose, in light of further route devolution. It also reviewed its effectiveness and governance structure and a number of recommendations were agreed and a plan for implementation was developed.

Chris Gibb,
Chair, safety, health and environment committee
27 June 2018

Committee members	Formal appointment to the committee	Number of meetings attended during the year
Chris Gibb	Nov 2013	4/4
Rob Brighthouse	Jan 2016	4/4
Sir Peter Hendy CBE	Oct 2015	4/4
Mike Putnam*	Feb 2018	1/1

*Mike Putman was appointed to the Board on 8 January 2018

Safety, health and environment committee report continued

Committee attendees

The chief executive, the managing director for England and Wales, managing director for Infrastructure Projects, director of Risk and Assurance and the Safety, Technical and Engineering director and some of his direct reports attend meetings by invitation.

Mick Cash, general secretary of the RMT Union is invited to attend committee meetings and participates in discussions. This aids scrutiny and challenge and enhances transparency of the work of the committee.

Ian Prosser CBE, both chief inspector of railways and director, Railway Safety at the ORR, attends committee meetings twice a year to present the regulator's view on Network Rail's safety performance.

Role of the committee

The committee's role is to monitor the integrity of the methods of discharge of the safety, health and environmental responsibilities of Network Rail and to satisfy itself as to the adequacy and effectiveness of the safety, health and environment policies and strategies within the Network Rail group.

The committee's activities include:

- Reviewing the group's safety, health and environment strategies, systems, policies and practices.
- Considering significant corporate and individual safety, health and environment risks and whether management is managing these effectively.
- Reviewing the scope and results of any safety, health and environment audits, on the effectiveness of the group's safety, health and environment strategies, systems, policies and practices.
- Considering the major findings of internal and external investigations and management's response to them.

Following each committee meeting, the chair provides a summary of the committee's activity to the next Board meeting, and makes recommendations as appropriate.

The terms of reference of the committee can be found on our website: www.networkrail.co.uk.

The committee reviewed its terms of reference to ensure they were fit for purpose, in light of further route devolution, and they were approved by the Board in May 2017. The key changes were to update them and to reflect organisational changes and industry developments. The committee also reviewed its effectiveness and governance structure and a number of recommendations were agreed and a plan for implementation was developed.

Principal activities during 2017/18

Matters considered by the committee during the year included:

- A review of the adequacy of the safety validation of organisational change arrangements.
- The 2017/18 SHE objectives and linkages to CP6 SHE objectives.
- Safety, health and environment-related incidents within Network Rail and contractor operations, including lessons learned from incidents such as the derailments in 2017, the Watford derailment and the Gloucester freight train derailment.
- The delivery of infrastructure projects safely and the impact on that scorecard.
- The progress of the Planning and Delivering Safe Work

(PDSW) programme and steps for embedding the updated company standard into the business.

- Presentations from a number of duty holders and route managing directors to demonstrate and discuss the adequacy and effectiveness of their safety, health and environment systems.
- Discussion of the current safety governance and assurance arrangements for the group in respect of safety leadership and close call reporting and close out and delivery of the required outcomes and improvement plans.
- Findings from corporate-level audits and agreed action plans including the close out of overdue actions.
- Progress of the sustainability and social performance strategy, including the environment and sustainability development plan and weather resilience and climate change adaptation plans and its impact on the group and wider stakeholders.
- Deep dive reviews into, amongst other things:
 - > Workforce safety.
 - > Station safety.
 - > Train accident risk reduction, including reviews of lessons learned from historical and more recent incidents.

Planned activities during 2018/19

The committee will continue to monitor progress on the initiatives already underway to improve workforce safety, health and wellbeing, and passenger safety.

Particular areas of focus for 2018/19 will include:

- The safety management procedures across the company as devolution of responsibilities to the routes matures and develops, including attendance at the committee by the route teams to discuss their safety, health and environment systems.
- Train accident risk reduction through delivery of the risk-based programme of milestones and volumes and a deep dive review.
- Workforce safety performance and progress with key risk reduction work streams. monitored through the Home Safe Plan, the PDSW programme and updating the suite of work activity risk assessments. There will be a deep dive review into workforce safety which will report on, amongst other things, the effectiveness of the vehicle monitoring systems in company road vehicles and the electrical safety delivery programme.
- Station safety performance and future plans to mitigate the risk of increasing passenger numbers and a deep dive review.
- Level crossing risk reduction including further closures, improving risk at passive crossings and further focus on the national level crossing safety campaign.
- Public safety including measures to reduce trespass incidents and suicides, including a deep dive review.
- Ensuring that the company engages with operators, funders, regulators and service specifiers to work towards elimination of all train toilets discharging on the track by 31 December 2019.
- Actions planned to promote and improve the health and wellbeing of employees, including a deep dive review.
- Progress being made towards achieving the objectives of the environment and sustainability strategy, both in the short and longer term and a deep dive review into sustainable development.
- Continual improvement of the effectiveness of the committee and its supporting governance structure by a biennial review of the work of the committee, its membership and its terms of reference.



Audit and risk committee report

I am pleased to report on the key activities and focus of the audit and risk committee during 2017/18. The committee monitors the integrity of the group's reporting process and financial management. It ensures that risks are carefully identified and assessed, and that sound systems of risk management and internal control are in place. It scrutinises the full and half-yearly financial statements before proposing them to the Board for approval. The committee also reviews in detail the work of the external independent auditor and any significant financial judgements made by management.

Throughout the year, the committee received executive deep dives from within the business on various risks, financial, audit and governance matters. These executive deep dives are essential in enabling the committee to better understand any key issues and areas of concern. They also inform the committee how different risks are managed and mitigated throughout the business, and assist the committee to understand the progress made towards the strategic plan.

The May 2018 timetable revision and the operational issues experienced following its introduction were reviewed by the committee. This topic continues to receive close attention.

This was my first full year chairing the audit and risk committee. I would like to thank the other committee members, together with management and the NAO, for their support.

Sharon Flood,
Chair, audit and risk committee
27 June 2018

Committee members	Formal appointment to the committee	Number of meetings attended during the year
Sharon Flood	Sep 2014	4/4
Bridget Rosewell OBE	Jul 2012	4/4
Rob Brighouse	Jan 2016	4/4
Silla Maizey	Nov 2016	4/4

The committee members collectively have a broad range of financial, commercial, aviation/transport and rail sector expertise that enables them to provide oversight of financial, operational and risk matters and to advise the Board accordingly.

All members of the audit and risk committee are independent. The chair of the committee has recent and relevant financial experience.

Committee attendees

The chair of the board, the chief executive, chief financial officer, director of risk and internal audit, head of group risk and the group general counsel & company secretary attend meetings of the committee by invitation. Representatives from the National Audit Office (NAO) also attend each meeting and periodically meet with committee members without executive management present. Periodically the director of risk and internal audit meets with the committee without executive management present.

Role and responsibilities of the committee

The terms of reference (ToR) govern the structure and operations of the audit and risk committee, including its delegated responsibilities and authority. The ToR are reviewed annually to ensure the activities of the committee reflect current regulatory and governance requirements and best practice. The terms of reference can be found at www.networkrail.co.uk.

The role of the committee falls into the following broad areas:

Financial reporting

- Monitoring the integrity of the annual report and financial statements of the company, major subsidiary undertakings and the group as a whole.
- Reviewing significant accounting judgements and policies and compliance with accounting standards.
- Considering whether the annual report and financial statements as a whole are fair, balanced and understandable.
- Reviewing the consistency of accounting policies both on a year-to-year basis and across the company; the methods used to account for significant or unusual transactions; applicable accounting standards followed or reconciled in the financial statements; and any other significant financial reporting judgements made by management.
- Internal controls and risk management.
- Reviewing Network Rail's risk management processes, risk

Audit and risk committee report continued

identification and reporting any issues arising from such reviews to the Board.

- Making recommendations to the Board on the level of risk appetite acceptable to Network Rail.
- Reviewing the company's overall risk assessment processes that inform the Board's decision making.
- Reviewing the process undertaken and the associated work required to complete the viability statement.
- Keeping under review the adequacy and effectiveness of the group's financial reporting and internal control procedures (including financial, operations and compliance controls and risk management) prior to endorsement of such procedures by the Board.
- Monitoring and overseeing the group's compliance with accounting and regulatory requirements.

Internal audit

- Agreeing internal audit plans and reviewing internal audit reports on the effectiveness of systems for internal financial control, financial reporting and risk management.
- Reviewing the progress of the internal audit plans.
- Monitoring the status of audit actions, including any that are overdue.

Independent auditor

- Overseeing the relationships with the Comptroller and Auditor General as the independent auditor and with the NAO.
- Approving the company's independent auditor's appointment, terms of engagement and fees and reviewing the management letter and management's response.
- Considering the results of external audit work and resolution of identified weaknesses; enquiring about and considering the independent auditor's planned audit approach.
- Assessing annually, and reporting to the Board on, the independence, objectivity, qualification, expertise and resources of the Company's independent auditor.

Whistleblowing and fraud

- Reviewing the policy and procedures whereby employees can raise, in confidence, concerns about possible improprieties.
- Assuring that such arrangements allow proportionate and independent investigation and appropriate follow-up action on such matters.

Principal activities during the year

The committee works to a structured programme of activities and meetings to coincide with key events around the company's financial calendar.

The committee received detailed updates from the business at each meeting. Business updates are planned on a 12-month basis and if any matter is identified by internal audit as in need of discussion sooner than 12 months, it is added to the agenda of a future meeting.

Following each meeting, the chair provides a summary of the committee's activities, the main discussion points and findings to the next Board meeting and makes appropriate recommendations.

Some of the key topics discussed during 2017/18 were:

Accounting standards and policies

The committee assessed whether suitable accounting policies had been adopted and whether management had made appropriate judgements and estimates.

The committee received an overview of the changes introduced by the new International Financial Reporting Standard 16 (IFRS 16) with regards to leases; International Financial Reporting Standard 9 (IFRS 9) with regards to financial instruments and International Financial Reporting Standard 15 (IFRS 15) with regards to revenue recognition, and their impact on the company.

Following discussion, the committee was satisfied that based on current activities, no significant impact on NR's group accounts was expected from IFRS 9 and IFRS 15.

The changes in IFRS 16 were not expected to have a material effect on NR's profitability although they would increase net debt and non-current assets. Further details can be found in note 2 to the accounts on page 100.

Group tax strategy

Under the Finance Act 2016, large entities are obliged to publish their tax strategy online.

The audit and risk committee reviewed Network Rail's approach to conducting its tax affairs and managing tax risks. Upon reviewing the proposals, the committee was satisfied that the proposed strategy was in line with Network Rail's current practice rather than a change of direction.

The Board approved the group tax strategy. The document can be found on Network Rail's website: <https://www.networkrail.co.uk/wp-content/uploads/2018/03/Tax-strategy-and-tax-risk-management.pdf>

The document will be reviewed periodically.

Viability Statement

The committee had oversight of the process and assessment of the group's prospects to carry on its business under severe but plausible scenarios undertaken by the risk management and internal audit functions.

Four severe but plausible scenarios had been selected and stress tested: 'Train accident', 'Exiting CP5 within financial and delivery boundaries', 'Suitable CP6 settlement' and 'Significant loss of personal or operational information'.

Financial impacts of each scenario were quantitatively assessed both pre-mitigation (a hypothetical condition that no controls were in place) and post-mitigation (taking into account the current controls that were in place).

It had been concluded that none of the four scenarios would result in a financial impact that would require NR to request additional funding.

The committee, and subsequently the Board, agreed that there was a reasonable expectation that NR would be able to continue in operation and meet its liabilities as they fall over the period to March 2021.

Fair, balanced and understandable

At the request of the Board, the committee considered whether, in its opinion, the annual report and financial statements 2017/18 are fair, balanced and understandable and whether they provide the information necessary to assess the company's position and performance, business model and strategy.

The committee received an outline of the structure of the annual report and financial statements 2017/18 and a

Audit and risk committee report continued

broad indication of its content in early stages. A full draft of the report was submitted prior to the meeting at which the committee was asked to provide its final opinion.

The assessment of such an opinion drew on work of the disclosure committee, the annual report and financial statements project group responsible for the coordination of content, verification, detailed review and challenge. Senior management confirmed that the content in respect of their areas of responsibility was fair, balanced and understandable. Following its review, the audit and risk committee stated that the annual report and financial

statements 2017/18 present a fair, balanced and understandable overview, providing the information necessary to assess the company's position and performance, business model and strategy. The committee therefore proposed the document for approval to the Board.

The committee is required to review any correspondence received from regulators in respect of financial reporting. There has been no correspondence from the FRC in relation to Network Rail's financial reporting during the 2017/18 financial year.

The committee has considered whether the annual report and accounts for 2017/18 is fair, balanced and understandable and provides the information necessary for an informed reader to assess Network Rail's performance, business model and strategy.

The committee considered the following questions:

Is the annual report fair?

- Has the whole story been presented and has any sensitive information been omitted that should have been included?
- Is the messaging in the front-half of the annual report consistent with the financial disclosures?
- Is the score card disclosed at an appropriate level based on financial reporting?

Is the annual report balanced?

- Is there an over-emphasis of matters that are not material?
- Is the narrative report in the strategic report consistent with the financial reporting in the accounts, and does the messaging reflected in each remain consistent when read independently of each other?
- Is there an appropriate balance between statutory and non-statutory measures and are non-statutory measures clearly defined?
- Are the risks in the narrative consistent with the committee's risks and issues and key areas of uncertainty and judgments?
- Are the key risks aligned with the audit report?

Is the annual report understandable?

- Is the document designed to suit the needs of the Department for Transport in its capacity as a member?
- Is the report understandable to a reasonably informed reader?
- Are new messages and themes clearly articulated?

The committee considers that the annual report for 2017/18 is fair, balanced and understandable and allows assessment of the group's performance and prospects.

Audit and risk committee report continued

Significant accounting judgements, key assumptions and estimates

With the support of the NAO, the committee assessed whether suitable accounting policies had been adopted, whether management had made appropriate estimates and judgements and disclosures were balanced and fair. The main areas of focus during the year are set out below.

Accounting judgements	How the committee addressed these judgements
<p>Valuation of rail network and compliance with regulatory requirements</p> <p>The revaluation model used to measure the value of the rail network consists of a number of estimates and judgements made both by the company and the Office of Rail and Road (for example anticipated financial and operational outperformance in the control period).</p>	<p>Detailed reports from management were considered by the committee and the methodology applied to the revaluation model was also reviewed and agreed.</p> <p>The committee also challenged management and the independent auditors on:</p> <ul style="list-style-type: none"> • The reasonableness of key judgements and estimates in respect of the forecast for the remainder of CP5. • The appropriate level of disclosures in the annual report and accounts around the valuation process and the related assumptions and judgements.
<p>Risk of management override of internal controls</p>	<p>Reports on management's approach to implementing, operating and monitoring the system of internal control are considered by the committee on a regular basis. The committee considered a letter of responsibility from the chief executive regarding the standard of internal controls and integrity that has prevailed in the business during the financial year.</p> <p>The independent auditors have also focused attention on this area and provided satisfactory reporting to the committee on this matter.</p>
<p>Deferred tax</p> <p>It was considered whether it was still probable that Network Rail could expect to use its brought forward tax losses.</p>	<p>Reports indicated that the reclassification of Network Rail as a public body, when taken together with continued high levels of investment in the rail network, meant that it was hard to judge that Network Rail would return within a predictable period to the level of taxable profits that would allow for the utilisation of tax losses. It was agreed to derecognise deferred tax assets.</p>
<p>Valuation of investment properties</p> <p>Investment properties are stated at fair value. The valuations are based on assumptions and estimates that require judgement.</p>	<p>The committee agreed the appropriate methodology had been used. The methodology was consistent with prior years and included valuations and additional assistance from external valuation specialists. The valuations were reviewed by management and the external valuation specialists.</p>
<p>Hedge accounting and derivatives</p> <p>Forward starting interest rate swaps are accounted for as cash flow hedges where it is believed that future sterling issuances are highly probable.</p>	<p>The committee agreed with the assessment that it is highly probable that Network Rail will borrow more than required to utilise all the forward starting interest swaps. The borrowing agreement in place with the DfT is greater than the value of the interest rate swaps. Network Rail's CP5 capital investment programmes will use substantially all of the borrowing facility.</p>
<p>Pension assumptions</p> <p>The group operates defined benefit and defined contribution pension schemes. Valuation of these schemes is dependent on certain key assumptions and complex calculations. External actuaries are engaged to assist in advising on key assumptions and determining the value of the pension obligations.</p>	<p>The committee discussed the key assumptions, including the degree to which these were supported by professional advice from the actuaries. The independent auditors also focused attention on this area and provided reporting to the committee on this matter.</p>

Audit and risk committee report continued

Risk management and internal controls

The Board assumes ultimate responsibility for the effective management of risk across the group, determining its risk appetite and implementation of appropriate internal controls across all departments/business units. The Board has delegated responsibility for reviewing the effectiveness of the risk management framework and internal controls to the committee. This covers all material controls including financial, operational and compliance controls and risk management systems. The risk management systems and internal controls are designed to manage rather than eliminate risk and can only provide reasonable but not absolute assurance that the group's risks are being appropriately managed and mitigated.

The risk landscape has evolved during the year; the committee therefore reviewed a number of existing and emerging significant risks affecting the group. These were:

- project and programme cost/schedule slippage.
- Gospel Oak to Barking electrification.
- the destabilising effect of change.
- the CP6 Strategic Business Plan.
- the deployment of digital railway at the start of CP6.
- the asset divestment portfolio.
- cyber security.
- the opportunities presented by HS2.
- train service reliability.

The committee was satisfied that a robust risk process was in place to manage and mitigate risks with appropriate plans and monitoring. Where risks had materialised, appropriate actions were being taken to manage the impact on passengers, customers and the organisation.

Some of the key topics discussed during 2017/18 were:

Cyber security

The committee was updated on the current status of the cyber security risk to Network Rail and the mitigation strategies. The committee noted that attacks against or affecting rail infrastructures had occurred in the last six months and a broader increase in threats had been consistently reported by UK security services and other intelligence feeds available to Network Rail. Network Rail's defences against these threats had been effective, and substantial progress had been made in bringing the risk under control. The team continued to review vulnerability of the systems and any likely exposure; further work was being undertaken to strengthen the governance and assurance systems.

Project and programme cost/schedule slippage

The committee reviewed the general enhancement portfolio 'landscape' within which Network Rail Infrastructure Projects (IP) had operated, and identified a number of issues. A series of remedial actions had been implemented, which were strengthening the planning and delivery of IP projects. The portfolio of projects had remained within the 'Hendy cap' for CP5, albeit with financial constraints.

Further information on Network Rail's approach to risk management and on the analysis/ scenario testing for the viability statement can be found on page 46.

Audit and risk committee report continued

Internal audit

The committee approves the annual Internal Audit plan (plan), which is structured to align with the group's strategic priorities and key risks. At each meeting the director of Risk and Internal Audit updates the committee on any changes to the plan and the reasons for deviation from the plan, notable audits, overdue actions, and themes and key issues arising from audits. Reports on major findings of internal investigations (and management's response to them) are also discussed on a regular basis. Our assurance processes have identified areas for improvement in our internal controls. Plans are in place to address these and are being monitored closely by the audit and risk committee.

External audit

Independent auditor

The Comptroller & Auditor General (C&AG), supported by the NAO, was appointed as Network Rail's independent auditor in 2015. In addition to providing an opinion on the group accounts, the C&AG also audits the accounts of the main trading subsidiaries of Network Rail. PricewaterhouseCoopers (PwC), the previous independent auditors, continued as the independent auditors for the remaining subsidiaries in 2017/18.

The obligation to appoint the C&AG as NR's independent auditor is a direct impact of the reclassification of Network Rail as a central government body and is in line with standard arrangements for central government bodies. The company is, therefore, unable to comply with the Competition and Markets Authority's Order and the Code that require listed companies to undertake a competitive tender process prior to the appointment of the auditor. This will remain the company's position for the foreseeable future.

Objectivity and independence of the independent auditor

The committee has put in place safeguards to maintain the independent auditor's objectivity and independence. To enhance independence and in line with established auditing standards, a new senior statutory auditor of the independent auditor is appointed every five years, with other key audit principals within that firm rotated every seven years.

The committee has also established a policy whereby employment of the independent auditor on work for the company is prohibited without prior approval by the committee, other than for audit services or tax compliance services.

Such requests are now unlikely in practice as the NAO does not offer non-audit services. The NAO does carry out Value for Money work on Network Rail, but this does not represent a service to Network Rail as it is performed under statute and on behalf of Parliament.

In 2017/18 the fee for audit services was £0.51m (£0.5m in 2016/17). This includes the NAO's cost of auditing Network Rail Infrastructure Limited, Network Rail Infrastructure Finance plc, Network Rail (High Speed) Ltd, the Regulatory Accounts and review of interim financial statements of Network Rail Limited and Network Rail Infrastructure Finance plc. It excludes the cost of the audit of some smaller subsidiaries which continue to be performed by PwC.

The fee to PwC for auditing the smaller subsidiaries was £113k.

Audit and risk committee report continued

A Value for Money report on the Thameslink programme

During the year, the committee considered the NAO's report on Thameslink in respect of the Department for Transport's and Network Rail's management of the remaining elements of the programme as it nears completion.

The committee noted the contents of the report including its key findings that:

- Network Rail had delivered the infrastructure works to schedule in a challenging environment, although there had been planned and unplanned disruption to passengers.
- Since the budget re-forecast in May 2015, Network Rail had kept its infrastructure budget stable and had improved its financial control over the programme.
- The wider rail network could not yet reliably support the Thameslink programme's new services.
- The Department for Transport was deferring the full introduction of the new services by up to a year, in order to improve the management of the risks of each service change.

Overall the Thameslink programme was found to be delivering benefits to passengers through station improvements and more spacious trains. The infrastructure work in central London was nearing completion and costs were stable.

A number of lessons learnt were now business as usual, e.g. the introduction of measures to improve the way Network Rail managed design changes or the use of more sophisticated cash forecasting techniques. The committee would continue to monitor this group's significant risk.

Committee performance effectiveness

During the year, an internally facilitated evaluation of the effectiveness of the committee was undertaken. Feedback was initially obtained through an anonymous questionnaire to members and other regular attendees of the committee. There then followed a series of interviews which elicited further detailed views. The outcome of the evaluation was a finding that there were no significant concerns about the effectiveness of the functioning of the committee. Several areas were identified that would contribute to the overall improvement to the committee and steps have been taken to implement these.

Effectiveness of the external auditor

A review of the independent auditor's performance and effectiveness is undertaken as part of the overall effectiveness review of the auditing process. Following the conclusion of each reporting cycle/financial year, the auditing process was assessed. The independent auditor was invited to comment on what worked well and where improvements could be made. The committee reviewed the review's findings and decided that the independent auditor was fully effective and performed as expected in discharging its duties and obligations.

Speak Out

Network Rail's confidential reporting service and 'Speak Out' whistleblowing policy has been in place since 2012. Our Speak Out line is run by an external company on behalf of Network Rail, and all reports are investigated by our independent Business Integrity team.

Our Speak Out policy has been amended this year to add clarity on maintaining the confidentiality of those who raise a concern covered by the policy, and to include bullying and harassment.

Mandatory company-wide ethics training, which includes whistleblowing, has been fundamental in raising awareness of the Speak Out line. Over 35,000 employees and contractors completed our first ethics training course 'Doing the Right Thing' (launched in 2015). In January 2018 we launched new mandatory ethics training to the business, designed to consolidate our employee's knowledge and understanding of business ethics at Network Rail. This second course (covering fraud, conflicts of interest, corporate hospitality, bribery and modern slavery) includes a reminder of our whistleblowing policy and how to report concerns about suspected wrongdoing taking place within Network Rail. Four months after launch, the new training has been completed by almost 14,000 employees and contractors.

In 2017/18, a total of 296 reports were made to our Speak Out line, broadly consistent with the 345 reports made in 2016/17. We are confident that our employees – and those working on our behalf – now have a greater level of awareness of business ethics, and our responsibilities as a public sector organisation. With this comes a change in culture, and as a result the number of reports made to Speak Out was expected to stabilise. Of the 296 reports made, 54 % were substantiated and action taken.

In 2018/19, we will continue to raise awareness of Speak Out by closely monitoring completion rates of our new ethics training, using targeted follow up communications in any function or route where these are lower than we would expect. This will complement our planned communications to further promote the Speak Out line.

Planned activities for the coming year

During the coming year, the committee will remain focused on the audit, assurance and risk processes within the business, and maintain its oversight of financial and other regulatory requirements.

Particular areas of focus for 2018/19 will include:

- Internal Audit and other assurance plans.
- Integrity of internal controls and effectiveness of risk management across the group.
- Oversight of the most significant risks within the group.
- Review of the key risks and internal controls associated with devolution, and how those risks and controls will evolve to provide assurances to the board.
- Scrutiny of the issues surrounding the introduction of the May 2018 timetable, and the adequacy and effectiveness of the associated internal controls.
- Monitoring and oversight of new accounting and regulatory developments.



Nomination committee report

I am pleased to present the committee's report into its activities during 2017/18.

The primary focus of the committee was on the appointment of Mike Putnam, a non-executive director. Mike is experienced in infrastructure development as well as construction and delivery. He has a background of successfully driving operational performance and business improvements. Mike's biography can be found on page 52, and further details of the appointment and induction processes are on page 71.

The committee has also reviewed the membership of board committees following Mike's appointment and the external commitments of other non-executive directors. As a result, Mike was appointed to the safety, health and environment committee, Rob Brighouse stood down from the treasury committee and Sharon Flood relinquished her membership of the remuneration committee.

Following chief executive Mark Carne CBE's announcement on 6 February 2018 that he planned to retire from Network Rail during 2018, the committee commenced a search for his replacement. On 21 May 2018 Network Rail announced that Andrew Haines OBE would be appointed as chief executive upon Mark Carne CBE's retirement. Details of that process and the outcome will be reported in the 2019 annual report and accounts.

During the year, Network Rail has undertaken effectiveness reviews of the main Board, the safety, health and environment (SHE) committee, the audit & risk committee (ARC) and the property supervisory board. The findings from those reviews have been assessed, and action plans have been put in place to address any issues of concern. More information can be found regarding the main Board effectiveness review on page 59, the SHE committee review on page 61 and the ARC review on page 63.

Bridget Rosewell OBE,
Chair, nomination committee

27 June 2018

Committee members	Formal appointment to the committee	Number of meetings attended during the year
Bridget Rosewell OBE (chair)	Sep 2016	2/2
Richard Brown CBE	Oct 2015	2/2
Sir Peter Hendy CBE	Oct 2015	2/2
Michael O'Higgins	Sep 2016	2/2

Committee attendees

The chief executive and the group general counsel and company secretary attend meetings of the Committee, by invitation.

Role of the committee

The role of the committee is to assess, review and monitor Board composition, as well as assessing the effectiveness of the Board and its committees. Following each committee meeting, the chair provides a summary of the committee's activity to the next Board meeting, and makes recommendations as appropriate.

The terms of reference of the committee can be found on our website: www.networkrail.co.uk.

Principal activities during the year 2017/18

Matters considered by the committee during the year included:

Renewal of non-executive director appointments

The performance and independence of two non-executive directors whose term of appointment was due for renewal during the year, were considered. While letters of appointment refer to appointments being for a three year term, all directors are subject to election or re-election at the Annual General Meeting each year.

Richard Brown CBE is appointed by the Secretary of State for Transport, so in his case the committee's review was to consider recommending his reappointment to the Secretary of State. Richard did not participate in any discussion related to his own reappointment.

For Sharon Flood, following an assessment of her performance, outside commitments and independence the

Nomination committee report continued

committee was able to recommend her reappointment to the Secretary of State, who endorsed Sharon's reappointment.

Search for and appointment of non-executive director

An independent executive search firm, Korn Ferry, was used to manage and support the search and appointment process for a non-executive director to replace Malcolm Brinded who retired from the Board in July 2016.

Following the placement of an advertisement for this role in a national newspaper, a long list of candidates was drawn up by Korn Ferry, which discussed the role with the candidates. Korn Ferry then reviewed the long list with Network Rail, and a short list of candidates identified.

Those on the short list were interviewed by Bridget Rosewell OBE, Sir Peter Hendy CBE and Michael O'Higgins. Following those interviews, Mike Putnam was identified as the 'preferred candidate'. He met with Mark Carne CBE following which a recommendation was made to the Secretary of State for Transport that Mike be appointed as a non-executive director. The Secretary of State approved Mike's appointment, which was effective from 8 January 2018.

Non-executive director induction programme

A comprehensive induction programme was developed, which took account of Mike Putnam's background knowledge and experience.

Mike met individually with Board colleagues, members of the executive committee, senior executives from around the business and colleagues at the Department for Transport and UK Government Investments.

He undertook a number of site visits to learn about a range of infrastructure programmes in process.

In addition, Mike was provided with a wide range of reading material.

Board Effectiveness Review

In Autumn 2017 Network Rail undertook an externally facilitated, light-touch review of the Board's effectiveness. This was led by Independent Audit, and independent governance experts.

The review involved interviews with all Board directors, the group general counsel and company secretary, two route managing directors, a member of the executive committee and representatives from the Department for Transport, UK Government Investments and the Office of Rail and Road.

The reviewer also observed one Board meeting, having also reviewed the papers for that meeting.

The outcome of the review was presented to the Network Rail Board in March 2018.

Further information can be found in the corporate governance report on page 59.

Planned activities during the coming year 2018/19

- The search for and appointment of a further non-executive director to replace someone who had indicated their intention to step down from the Board during summer 2018.
- A detailed, independent evaluation of the Board's effectiveness in 2018.
- Consideration of a proposal to amalgamate the nomination and remuneration committees.



Treasury committee report

Throughout 2017/18, the committee has continued to receive in-depth executive briefings from the treasury function on a range of financing, debt, risk and treasury matters.

Since reclassification, Network Rail's source of borrowing is via a Department for Transport loan facility.

As funding is limited, NR is proactively seeking third party financing of rail enhancements in CP6.

In addition, Network Rail is seeking to sell non-core railway-owned property assets that are not essential for running a safe, reliable and growing railway. Sale proceeds will be used to fund the Railway Upgrade Plan, improving and enhancing the rail network for the benefit of passengers and the UK economy as a whole.

The committee will continue to oversee these activities in the year ahead.

Sharon Flood,
Chair, treasury committee

27 June 2018

Committee members	Formal appointment to the committee	Number of meetings attended during the year
Sharon Flood*	Sep 2014	3/3
Bridget Rosewell OBE	Jul 2012	3/3
Rob Brighouse**	Jan 2016	2/2
Silla Maizey	Nov 2016	3/3

* Chair since September 2016

** stood down from the Committee in February 2018

Committee attendees

The chair of the board, chief financial officer, group treasurer, and the group general counsel and company secretary also attend meetings by invitation.

Role and responsibilities of the committee

The terms of reference (ToR) govern the structure and operation of the treasury committee, including its delegated responsibilities and authority level. The ToR are reviewed regularly, to ensure the activities of the committee reflect its current activities and best practice. The last such review was undertaken in February 2018 and the revised ToR were approved by the Board in March 2018. The terms of reference can be found at www.networkrail.co.uk.

The committee's role is to:

- Review and satisfy itself as to the appropriateness of proposed treasury transactions including banking, cash management and cash forecasting, debt management, investment management and treasury risk management.
- Approve or recommend strategies and policies in relation to areas of treasury management, including liquidity management and forecasting, financing activities, bank relationships and regulatory requirements.
- Review the Treasury function's financial reporting and internal control procedures.
- Approve specific transactions in the areas of treasury responsibility.

Principal activities during the year

The committee receives detailed updates from the Treasury department at each meeting. Updates are planned 12 months ahead, although if any matter is identified by Treasury as being in need of discussion sooner, it is added to the agenda of a future meeting.

Following each meeting, the chair provides a summary of the committee's activities, the main discussion points and findings to the next Board meeting and makes appropriate recommendations.

Some of the topics discussed during 2017/18 are outlined below:

CP6 financial framework

Network Rail continued to explore options for securing sustainable funding and financing arrangements for CP6 and beyond. The committee reviewed and discussed key issues associated with the CP6 Financial Framework. Arrangements for the restructuring of existing debt and

Treasury committee report continued

the mechanism by which the company would receive funding in CP6 are part of ongoing discussions with the DfT and HMT.

Third party funding and financing

The committee continued to review progress on identifying potential opportunities for attracting private finance for rail enhancements and progress on third party funding activities. A number of schemes had been identified and detailed assessments of operational feasibility and commercial viability of these schemes had commenced.

Treasury

Further matters considered by the committee during the year included:

- Review of DfT loan draw downs, use of pre-hedges, and associated maturities.
- Regular review of cash flow forecasting, including actual cash performance vs. budget, analysis of variances and reviews of the company's funding and liquidity positions in the light of DfT loan limits.
- Annual review of the adequacy and effectiveness of treasury policies and approving the annual update of the Treasury Policy Manual and Risk Register.
- Review of existing collateral arrangements and agreement of a new collateral funding facility provided by DfT.
- Considering the benefits of a number of potential strategic finance opportunities, particularly in relation to potential asset disposals, and recommending that they continue to be explored further.

Planned activities during the coming year

During the coming year, the committee will continue to monitor the progress of the initiatives already under way.

Particular areas of focus for 2018/19 will include:

- Ongoing efforts to raise cash via the disposal of non-essential railway assets, to protect the delivery of railway outputs for CP5 within the DfT loan limit.
- Exploring alternative approaches to raising capital to fund enhancements (including the digital railway) in future control periods.
- Agreeing the CP6 Financial Framework setting out NR's future capital and financing structure.
- Assessing strategic and/or corporate finance opportunities that may be proposed to the Board.
- Monitoring cash flow and loan limits management.

Directors' remuneration report

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Annual statement from the remuneration committee chair

I am pleased to present the 2018 directors' remuneration report from the Network Rail remuneration committee. The remuneration committee is dedicated to the highest standards of disclosure on remuneration and recognises that executive remuneration is an important issue for a public body. We operate in line with the remuneration reporting requirements which apply to UK listed companies and the provisions of the UK corporate governance code.

The 2017 remuneration report, including the three year Remuneration Policy for executive directors (Policy), was approved at the AGM by our member, the Secretary of State. The Policy sets out the framework and limits for how executive directors are paid. The policy was included in the 2017 directors' remuneration report and can also be viewed on our website, www.networkrail.co.uk.

The terms of reference for the remuneration committee were revised in 2017 and agreed, strengthening the governance model and giving the committee a broader remit, covering over 50 of the top roles.

Our annual remuneration report outlines the outcomes for 2018 in respect of executive remuneration and will be subject to approval from our member, the Secretary of State.

The key points to note from 2018 are:

- The performance related pay outcome, which is determined by performance against the scorecard.
- However, both executive directors voluntarily declined any performance related pay for this year due to the timetabling issues experienced in May 2018.

Determining executive pay at Network Rail – best practice corporate governance

Developing policy:



Implementing policy:



Directors' remuneration report continued

The remainder of this statement explains how executive remuneration is determined at Network Rail, gives more detail on the outcomes in respect of 2018 and summarises the Policy agreed in 2017.

Remuneration committee agenda items during the year

The main agenda items discussed this year were:

- The application of the broader remit across executives.
- The commissioning and scoping of a review of senior remuneration, below executive director level. The review has been jointly commissioned by HM Treasury, Department for Transport and Network Rail.
- Proposed pay principles to set a framework for senior remuneration decisions.

Implementation of Policy in 2018

During the year the remuneration committee made decisions within the framework agreed as part of the policy in 2017.

The policy is underpinned by four key principles which are:

- 1. Simple** – the framework should be simple and transparent for all stakeholders to understand.
- 2. Competitive and fair** – attracting and retaining leaders of the necessary calibre requires remuneration arrangements that are reasonable in the markets in which we compete for talent and which fairly reflect the appropriate market rates for the skills and experience of the individual. At the same time, we always remain cognisant of the need to ensure value for money for the taxpayer and to reflect our status as a publicly funded body.
- 3. Performance and safety** – there should be a performance related element of the package which rewards performance in areas that are most important for our stakeholders. There should be no reward for failure. Safety of the workforce, passengers and the general public is at the heart of everything we do and must be reflected in the remuneration framework.
- 4. Aligned with employees** – where possible, remuneration structures will be aligned across the organisation. All Network Rail employees continue to be eligible for performance related pay determined using a consistent performance framework across the organisation.

The remuneration framework for executive directors is based on these principles and includes the core elements:

Salary	Salaries are set at a level which reflects the skills and experience of the individual as well as the scope of the responsibilities of the role.
Benefits and pension	Participation on the same basis as other managerial positions at Network Rail.
Performance related pay	One plan based on the achievement of stretching annual performance targets aligned to the business scorecard.

All decisions and payments made to executive directors during the year were within the agreed policy framework.

With the extended remit of the committee to all senior roles above the pay threshold of £142,500 additional

governance was introduced during the year. This included an annual review of all roles at this level, and will also include annual pay reviews, remuneration policy and performance related pay.

2018 outcomes

Business performance is measured through the business scorecards. These measure performance against key measures and targets agreed with customers and stakeholders. Performance related pay for senior executives is determined by the scorecard outturn and modified according to personal performance ratings, so the lower the performance, the lower the performance related pay.

Overall performance against the scorecard was 54.6%. This is the first time our overall performance has exceeded the target of 50% since 2010. There was very strong performance on asset management and safety. Route performance was also strong however a small number of routes were below individual targets. Despite improvement on last year, financial and train performance still fell below the targets set. The maximum performance related pay for executive directors is 20% of salary.

Both the chief executive and the chief financial officer decided voluntarily to decline any performance related pay for the year. They are both aware that the problems introducing the new train timetables in May 2018 have been unacceptable and have had serious impacts on passengers. The problems have been industry-wide and they took this decision to demonstrate their accountability for the parts of the problems which were caused by Network Rail.

Full details of the decision making and outturn of the performance related pay scheme can be found on page 77.

The business scorecards have continued to evolve and are the key component to determining performance related pay. The national scorecard reflects measures that are most important to the customers of our routes, our stakeholders and the ORR. All route scorecards are developed jointly with customers to reflect their differing needs, as well as those of passengers, within an overall framework of safety, financial performance, train performance, asset management, investment and local customer measures.

To reflect the devolved nature of the business, 60% of performance related pay for those in routes is determined by performance against the route scorecard with the remaining 40% determined by the national scorecard outturn.



Michael O'Higgins,
Chair, remuneration committee
27 June 2018

Annual remuneration report

This report has been prepared in accordance with the requirements of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Report) (Amendment) Regulations 2013. Where indicated, some of the disclosures in these sections have been audited.

Single total figure of remuneration for 2017/18 (audited)

The table below summarises all remuneration for the executive directors in respect of 2017/18 (and the prior year comparative). Further discussion of each of the components is set out on the pages which follow.

£'000	Salary		Benefits ¹		Pension ²		Performance Related Pay (PRP)		Total	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18 ³	2016/17	2017/18	2016/17
Mark Carne	682 ⁴	683	23	23	64	64	0	50	769	820
Jeremy Westlake	353 ⁵	354	15	14	31	31	0	26	400	425

1. Benefits include car allowance, private medical cover, any annual travel subsidy and life assurance.
2. Pension includes the value of all pension benefits receivable in respect of the relevant year. This includes both the supplementary cash allowance and a value from participation in the defined benefit or defined contribution pension arrangements or allowances for those who have opted out of their respective pension arrangements in the relevant year (calculated in accordance with the methodology prescribed by the Regulations). Further details of these pension benefits are set out in the pension section on page 78.
3. No performance related pay as the executive directors voluntarily decided to decline receiving any payments due to the May 2018 timetabling issues that emerged after the end of the year.
4. Mark Carne CBE's 2017/18 salary is lower than the previous year due to one less working day i.e. Monday – Friday, in the reporting period. Salary is paid in 4 weekly periods and is pro-rated based on working days in each 4 week period. Mark Carne CBE declined his annual pay award in 2017.
5. Jeremy Westlake's 2017/18 salary lower than previous year due to a combination of annual pay award in 2017, fewer working days in the reporting period and salary deductions due to flexible annual leave.

Executive director changes

There were no Executive Director changes during 2017/18, however Mark Carne CBE will be retiring and leaving Network Rail in late summer 2018.

Incentive plan 2017/18 – annual performance related pay (audited)

At the start of the year, two directors were eligible to participate in this scheme, Mark Carne CBE and Jeremy Westlake. The maximum potential annual performance related pay award for executive directors in 2018 was 20 per cent of salary. Stretching performance targets were set at the start of the year in the context of the national scorecard, which can be found on page 8. The approach for performance related pay is aligned across the businesses, including executive directors. The scorecard outturn determines the percentage payout against the maximum award (20 % of salary). This is then modified in accordance with the performance rating. For a 'good' performance rating, the amount is reduced by applying a modifier of 0.9.

In 2018 the outturn of the national scorecard was 54.6 % . As noted above, both of the executive directors decided that they would decline any performance related pay for the year.

Performance against the national scorecard is summarised on page 9. Overall scorecard performance was above target. Specifically, targets were met or exceeded in relation to safety and asset management. Route performance was generally above target however three of the nine routes fell below target. Despite improvement in performance against last year, further improvement is still required around financial and train performance which still fell below the targets set.

Directors' remuneration report continued

The ORR Board wrote to Network Rail's remuneration committee setting out its views on Network Rail's performance in 2017/18. Each year the Safety, Health and Environment (SHE) committee considers the overall scorecard outturn from a safety perspective and decides whether to recommend any further adjustments to reflect safety performance.

Having reviewed the safety measures outturn and the overall safety performance, the committee concluded that the scorecard outturn on safety measures is a reflection of overall safety performance and no adjustments should be made.

Pension (audited)

1. Executive directors are eligible to participate in one of the Network Rail defined benefit pension schemes or the defined contribution pension scheme on the same basis as other employees.
2. Executive directors who have opted out of their respective pension arrangements to protect their Lifetime Allowance (£1.03m since 6 April 2018) are eligible to receive a pension allowance on the same basis as other employees, subject to the discretion of the group HR director. This allowance is equivalent to the employer's pension contributions otherwise payable to the relevant pension scheme, less an adjustment for the cost of providing continued life assurance and the employer National Insurance Contributions payable.
3. Executive directors receive an additional pension allowance in the form of a cash supplement based on a percentage of their earnings above the notional earnings cap (£160,800 for 2018/2019 tax year and previously £154,200 for 2017/2018).

The table below sets out details for executive directors for 2018 in respect of all Network Rail pension benefits, split between the defined benefit and defined contribution/additional allowance. The value shown in the final column of this table is included as the pension column in the single total figure of remuneration on page 77.

Defined benefit schemes					Other pension arrangements		
	Normal retirement age	Accrued pension at 31 March 2018 £000	Increase in accrued pension (net of inflation) during 2017/18)	Transfer value of accrued pension at 31 March 2018 £000	Value included in single figure table (A) £000	Cash salary supplement or contribution to defined contribution scheme (B) £000	Total pension value reported in single figure table (A+B) £000
Mark Carne	—	—	—	—	—	64	64
Jeremy Westlake	—	—	—	—	—	31	31

The normal retirement age shows the age at which the director can retire without actuarial reduction.

Transfer values as at 31 March 2018 have been calculated in accordance with 'The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008'.

For the defined benefit schemes, the value shown in the Single Figure table (A) has been calculated in accordance with the Regulations by applying a multiplier of 20x to the increase in accrued pension (net of inflation) during the year. For the additional pension allowance (B), the value shown is the gross cash allowance/contribution in the year. The value shown in the single figure table is the sum of A and B.

Directors' remuneration report continued

Non-executive directors' fees (audited)

Under the framework agreement the Secretary of State for Transport (SoS) sets the pay for the chair and non-executive directors of Network Rail. The fees for the non-executive directors were reviewed in 2016 and have not increased.

The table below summarises the remuneration for the non-executive directors in respect of 2017/18.

	2017/18		2016/17	
	Fees £000	Benefits £000	Fees £000	Benefits £000
Rob Brighthouse¹	50	–	50	–
Richard Brown CBE	50	–	50	–
Sharon Flood²	70	–	59	–
Chris Gibb³	70	–	66	–
Peter Hendy⁴	411	1	502	1
Silla Maizey⁵	40	–	14	–
Michael O'Higgins	60	–	60	–
Mike Putnam⁶	9	–	–	–
Bridget Rosewell OBE	69	–	70	–

1. In addition, Rob Brighthouse received £13,500 from DfT via Network Rail for time spent in April 2017 as Interim Chair of East West Rail Company. This payment was reimbursed in full. Payments for time spent after April 2018 were paid directly from the DfT.
2. Increase in Sharon Flood's remuneration as a result of increased fee in 2016/17. 2017/18 represents a full year's remuneration at the new rate.
3. Increase in Chris Gibb's remuneration as a result of increased fee in 2016/17. 2017/18 represents a full year's remuneration at the new rate.
4. In addition to fees, Sir Peter Hendy CBE also receives private medical cover which was agreed with the DfT in 2015 at the time of his appointment. The 2016/17 figure has been updated to show value of cover received. Sir Peter Hendy CBE also reduced his working hours in July 2017 which is reflected in the decrease in remuneration.
5. Silla Maizey joined the Board during 2016/17 on 22 November 2016.
6. Mike Putnam joined the Board during 2017/18 on 8 January 2018.

Payments to former directors (audited)

There were no payments to former directors in 2017/18.

Payments for loss of office (audited)

There were no payments for loss of office to executive directors in 2017/18.

Outside appointments

Network Rail is supportive of executive directors who wish to take on a non-executive directorship in order to broaden their experience and enhance their contribution to Network Rail. Executive directors are normally required to seek approval from the committee to retain any fees they receive in respect of such appointments.

Mark Carne CBE is a director of the Rail Delivery Group Limited and also an independent governor of Falmouth University. He receives no fees in respect of these appointments.

Additional disclosures

The following disclosures are required by the Regulations to provide additional context for considering executive remuneration.

Directors' remuneration report continued

Percentage change in remuneration

The table below shows the percentage change in the salary, benefits and annual performance related pay (APRP) of the chief executive and all Network Rail employees from 2016/17 to 2017/18.

For the purposes of the table below, the annual change in the value of each of the components for the chief executive has been calculated using the data disclosed in the relevant columns of the single total figure of remuneration table on page 77.

	Chief executive	All employees
Salary ¹	0 %	3.0 %
Benefits	0 %	0 %
Performance related pay ²	0 %	0 %

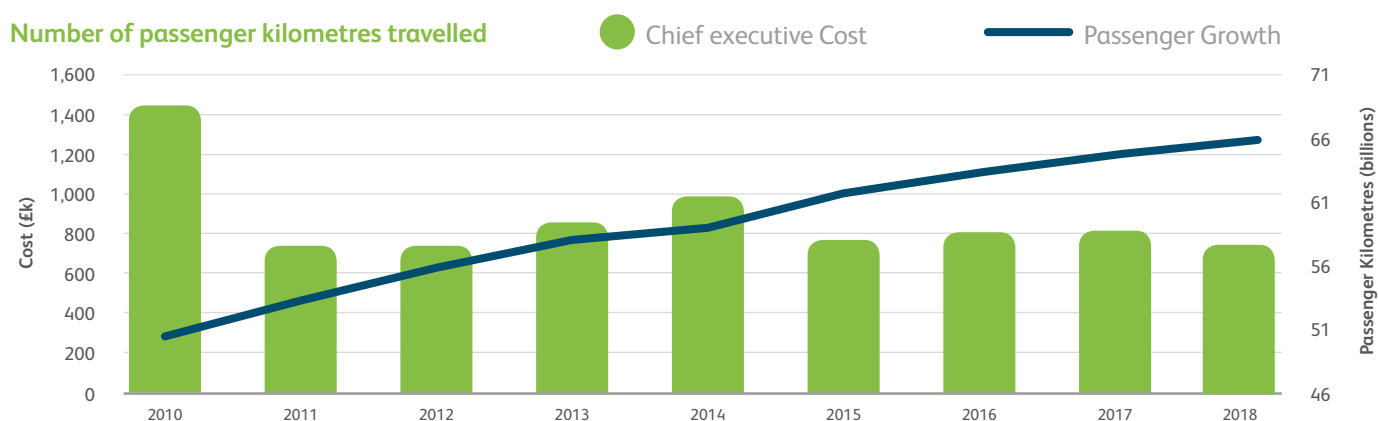
1. Based on salary reviews effective on either 1 January or 1 July 2018.

2. Performance related pay is based on any changes to maximum opportunity.

Performance graph and table

Under the Regulations, companies are required to include a chart showing historic total shareholder return (i.e. share price and re-invested dividends) over an eight-year period alongside a table that shows the remuneration paid to the chief executive over the same period. As Network Rail does not have shares, or a share price, an alternative metric of passenger kilometres travelled has been used.

Number of passenger kilometres travelled



	2017/18	2016/17	2015/16	2014/15	2013/14		2012/13	2011/12	2010/11		2009/10
Chief executive	Mark Carne	Mark Carne	Mark Carne	Mark Carne	Mark Carne	David Higgins	David Higgins	David Higgins	David Higgins	Iain Coucher	Iain Coucher
Single total figure of remuneration	£769k	£820k	£811k	£771k	£200k	£790k	£836k	£736k	£161k	£528k	£1,447k
PRP (% of vesting)	54.6 %	37 %	34.7 %	0 %	20.9 %	N/A	28.6 %	0 %	N/A	N/A	56.8 %
LTIP (% of vesting)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	47.8 %

Iain Coucher was appointed chief executive on 1 August 2007. He resigned on 31 October 2010.

David Higgins was appointed chief executive on 1 February 2011. He resigned on 28 February 2014.

Mark Carne CBE was appointed chief executive on 24 February 2014. He will be leaving late Summer 2018.

Mark Carne CBE also voluntarily declined any performance related pay in 2018.

N/A indicates that there was no eligibility for an award vesting in respect of the relevant year.

Directors' remuneration report continued

Relative importance of spend on pay

Under the Regulations, companies are required to illustrate the relative importance of spend on pay by disclosing the total employee remuneration and returns to shareholders (i.e. dividends and share buybacks) in the reporting year and the prior year. Network Rail is a not-for-dividend company and therefore cannot provide data on returns to shareholders. Therefore, in line with the principle of this disclosure, the table below includes other key Network Rail metrics to illustrate employee remuneration in the context of overall business activities.

	2017/18	2016/17	Change (%)
Total employee remuneration	£2,419m	£2,160m	12.0 %
Benefits	£9,985m	£9,794m	2.0 %

The increase in total employee remuneration is mostly due to increased pension costs, headcount increases and salary inflation. In addition, recent rulings on holiday pay and the apprenticeship levy have added further to the overall employee cost.

Consideration of directors' remuneration – remuneration committee and advisers

The membership of the committee during the year comprised the following independent non-executive directors: Michael O'Higgins, Sharon Flood, Sir Peter Hendy CBE and Richard Brown CBE.

The group general counsel and company secretary is secretary to the committee. The committee is also supported by the director, human resources, and head of reward and benefits. The chief executive attends meetings at the invitation of the committee. No individual is present when their own remuneration is being discussed.

In carrying out its responsibilities in line with best practice, the committee seeks independent external advice as necessary. During the year, the committee retained Deloitte LLP to provide independent advice on executive remuneration. Deloitte was appointed by the committee in 2012 following a selection process undertaken by the committee. The committee is satisfied that the Deloitte engagement partner and team provide objective and independent remuneration advice to the committee and do not have any connections with Network Rail that may impair their objectivity and independence. Deloitte is a founding member of the Remuneration Consultants Group and voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at www.remunerationconsultantsgroup.com.

Deloitte did not provide any advice to the committee during 2017, and as such no fees were payable in this respect.

Key remuneration committee agenda items during the year:

May 2017 (2 meetings)	<ul style="list-style-type: none"> Executive director remuneration report and Remuneration Policy 2017 Scorecard 2016-17 outturn for performance related pay decisions
December 2017	<ul style="list-style-type: none"> Senior remuneration review
January 2018	<ul style="list-style-type: none"> Senior remuneration review
February 2018	<ul style="list-style-type: none"> Senior remuneration review Scorecard 2017-18 outturn for performance related pay decisions

Directors' remuneration report continued

Committee members

Member	Formal appointment to committee	Number of meetings attended during the year
Richard Brown CBE	July 2015	3/5
Sharon Flood ¹	September 2014	4/4
Sir Peter Hendy CBE	July 2015	5/5
Michael O'Higgins ²	November 2012	5/5

1. Stepped down from the committee in February 2018.

2. Chair since July 2013.

Role of the remuneration committee

During the year, the role of the remuneration committee was extended to cover policy, governance and decision making in relation to all senior employees with salaries above the pay threshold of £142,500.

The full terms of reference of the committee can be found on the website:
www.networkrail.co.uk.

Executive directors' remuneration policy

The remuneration policy was reviewed in 2017 and was approved by the member at the AGM.

The policy is outlined in the summary table below, with the full policy available in the 2017 annual report (<https://cdn.networkrail.co.uk/wp-content/uploads/2017/07/Network-Rail-Annual-report-and-accounts-2017.pdf>).

The policy is based on four core principles:

Simple	Competitive and fair	Focused on safety and performance	Aligned with employees
The policy should be clear and transparent for all customers and stakeholders to understand.	Remuneration should appropriately reflect the skills and experience of the individual, and the scope and complexity of the role. At the same time, it should provide value for money for customers, taxpayers and passengers.	The framework covering performance related pay should reward exceptional performance in the areas which are most important for Network Rail, our customers and stakeholders – such as safety, train performance and financial management. A key component of financial management is the focus on driving efficiency and managing costs effectively. There should be no reward for failure.	All Network Rail employees continue to be eligible for performance related pay using a consistent performance framework across the company.

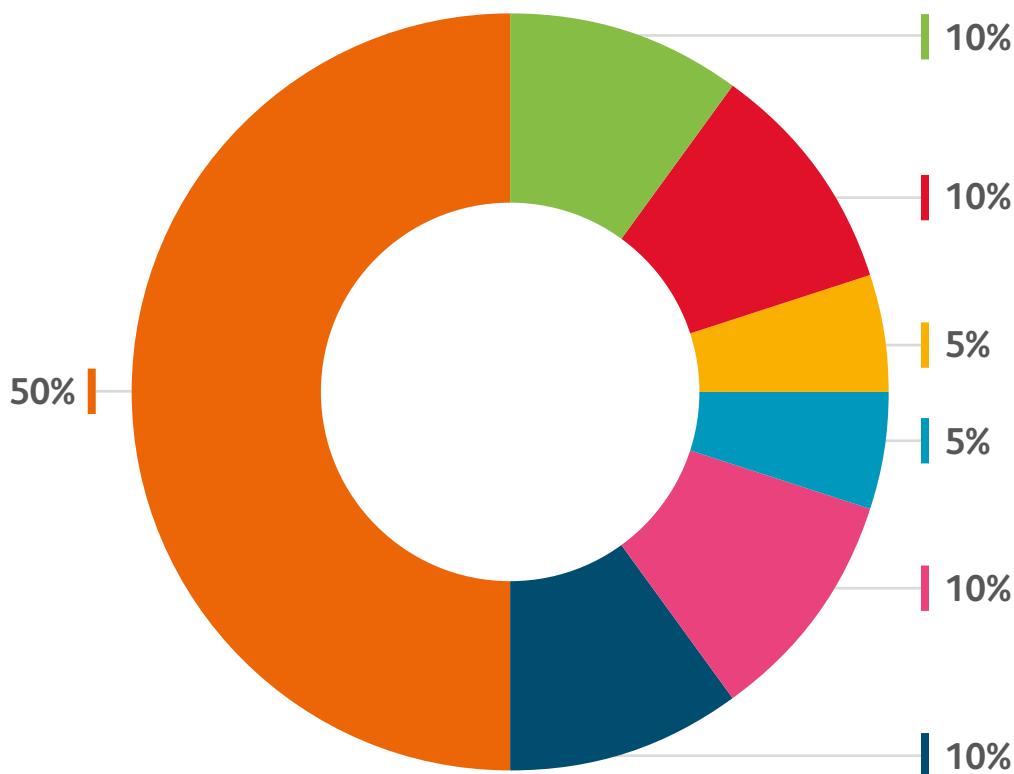
Directors' remuneration report continued

The policy is summarised below:

Fixed	Salary	<p>Salaries are set at a level that reflects the capability, skills and experience of the individual as well as the scope and responsibilities of the role allowing the company to recruit the caliber of individual needed to lead the business.</p> <p>In line with other employee groups, salaries are reviewed annually and increases will normally be in line with the typical salary increase for the overall population over the same period.</p>
	Benefits	<p>Includes discounted rail travel and life insurance in line with all Network Rail employees as well as car and healthcare benefits in line with other management positions.</p>
	Pensions	<p>Eligible to participate in Network Rail pension schemes on the same basis as all employees.</p> <p>To provide a market competitive pension benefit, executive directors and senior managers may also receive a supplementary cash allowance of up to ten per cent of salary above the Network Rail pension cap.</p>
Variable	Performance related pay	<p>One performance related pay plan based on stretching annual performance targets which our stakeholders care about most.</p> <p>Cascading the performance framework across the organisation creates aligned objectives and shared successes.</p> <p>For executive directors, a maximum opportunity of 20 per cent of salary, subject to performance, and any amount is deferred for three years.</p>

Directors' remuneration report continued

Pay for performance structure for executive directors – aligned to what is important for customers



- Safety
- Financial performance
- Investment
- Asset management
- Train performance
- Locally driven customer measures
- Route performance

The National Scorecard tracks our performance across the six key areas that matter most to customers. The KPIs relevant to management are captured on the scorecard, but other levels of the organisation may review different KPIs that support these same performance outcome areas.

Balanced scorecard business performance targets for 2018/19

The table on page 83 summarises the business performance measures for executive directors for the 2018/19 financial year based on the framework described on page 82.

The overall national business scorecard used to measure performance every period is used for performance related pay measures and targets across the business.

The 2018/19 route scorecards contain devolved train performance measures which encompass locally driven measures, set in alignment with train operators' priorities. This means up to 60 % of route performance targets are now set locally, linked to customer scorecards and represented by individual route on the national scorecard.

In addition, under-performance against the financial performance measure will reduce the performance related pay outturn on a sliding scale. If financial performance goes beyond twice the 'worse than' target set, then no performance related payment will be made.

The framework of the 2018/19 national scorecard is detailed on page 85 including measures and weightings. The national scorecard and its metrics have been approved by the DfT and SoS.

Directors' remuneration report continued

	Performance measure	Weighting	
Safety	Lost Time Injury Frequency Rate (LTIFR)	10 %	2.50 %
	Close Calls Raised (between 1 April 18 – 31 March 19)		1.00 %
	YTD Close Calls Closed % Within 90 Days		1.50 %
	Passenger train accident risk reduction measures		2.50 %
	Top 10 milestones to reduce level crossing risk		2.50 %
Financial performance	Financial Performance Measure (FPM) - Gross Renewals (£m)	10 %	2.50 %
	Financial Performance Measure (FPM) - Gross Profit and Loss (£m)		2.50 %
	Financial Performance Measure (FPM) - Gross Enhancements only (£m)		2.50 %
	Cash Compliance – Income & Expenditure		2.50 %
Investment	All Delivery Plan Enhancement Milestones (%)	5 %	5.00 %
Asset management	Composite Reliability Index (CRI)	5 %	2.50 %
	7 Key Volumes		2.50 %
Train performance	Train Performance	10 %	10.00 %
Locally driven customer measures	Locally Driven Customer Measures	10 %	10.00 %
Route performance	Anglia	50 %	7.6 %
	London North Eastern & East Midlands (LNE & EM)		6.9 %
	London North Western (LNW)		6.3 %
	Scotland		5.1 %
	South East		12.3 %
	Wales		2.1 %
	Wessex		4.1 %
	Western		3.9 %
	Freight and National Passenger Operator (FNPO)		1.8 %

Directors' report

The directors present their annual report and the audited accounts for the year ending 31 March 2018.

Disclosures regarding business performance and activities, future business developments and risk management are contained in the strategic report (pages 1 to 47) and corporate governance report (pages 48 to 85).

The company is limited by guarantee, having no share capital, so there are no share disclosures in the present report.

Directors

The directors who served during the year and held office at the date of signing the annual report and accounts are detailed on pages 49 to 52.

Directors' conflicts of interest

In accordance with company law and the company's articles of association, the directors have the power to authorise any matter which would or might otherwise constitute or give rise to a direct or indirect conflict of interest. However, such authority can only be exercised if the director has declared his actual or potential conflict of interest to the Board. The directors have a continuing obligation to update any changes to their conflicts. Further details about directors' conflicts of interest can be found on page 58.

Branches

The company's subsidiary, Network Rail Consulting Limited, has established branches in Saudi Arabia and Dubai (UAE).

Contracts of significance

There were no contracts of significance subsisting during 2017/18 to which any Network Rail undertaking was a party and in which a director of the company is or was materially interested (as defined by Listing Rule LR 9.8.4R).

Political donations

It is Network Rail's policy not to make political donations or to incur political expenditure in the UK and the EU. No political donations were made and no political expenditure was incurred during the year (2016/17: £nil).

Investing in research and development

Technology and innovation is fundamental to Network Rail's success in Control Period 5 and beyond.

During the year the group charged nothing to the income statement (2016/17: nil) on research and development.

Other costs relating to significant development work have been capitalised in property, plant and equipment. Further information on the cost of research and development can be found in Note 2 on page 102.

Financial disclosures

Disclosures in relation to the group's use of financial instruments, its financial risk management objectives and policies, including its policy for hedging each major type of forecasted transaction for which hedge accounting is used, its exposure to price risk, credit risk, liquidity risk and cash-flow risk are outlined under Note 25 on page 126.

Disclosures in relation to important events affecting the group since the financial year end and an indication of likely

future developments are outlined in the CFO's statement on pages 10 to 13.

Disclosures in relation to the amount of any interest capitalised by the group, including an indication of the amount and treatment of related tax relief are outlined in Notes 9 and 10 on pages 107 to 108 respectively.

No unaudited financial information relating to the financial year was published in a class 1 circular or in a prospectus during 2017/18.

Disclosures in relation to any long-term incentive schemes or directors waiving any emoluments from the group or any subsidiary undertaking are outlined in the remuneration report on pages 74 to 85.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company, and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and accounting estimates that are reasonable and prudent.
- State whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group, to enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors are responsible for the maintenance and integrity of the company's website.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for its member to assess the company's performance, business model and strategy.

Directors' report continued

Each of the directors in office at the date of this report, whose names and functions are listed on pages 49 to 52, confirms that, to the best of their knowledge:

- The financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group and the undertakings included in the consolidation taken as a whole.
- The management report, which for the purposes of Disclosure and Transparency Rules DTR 4.1.8R is incorporated into the strategic report and directors' report, includes a fair review of the development and performance of the business and the position of the group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the group faces.

Independent auditor

Resolutions for the re-appointment of the current independent auditor, the National Audit Office, who also acts for the Comptroller and Auditor General, and to authorise the audit and risk committee to determine the independent auditor's remuneration, will be proposed at the forthcoming annual general meeting. The notice of meeting is enclosed, together with explanatory notes, in a pack with this report.

Disclosure of information to the independent auditor

Each of the directors at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the company's independent auditor is unaware.
- The director has taken all steps that they ought to have taken in order to make them aware of any relevant audit information and to establish that the company's independent auditor is aware of that information.

Going concern statement

The group's business activities, together with the factors likely to affect its future development, performance and position and the group's principal risks and uncertainties are set out in the 'strategic report' section on pages 1 to 47. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the CFO's review on pages 10 to 13. Note 25 on page 126 to the accounts includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit, liquidity and foreign exchange risk. The viability statement on page 46 to 47 sets out a longer-term assessment than this going concern statement.

The group has considerable financial resources together with long-term contracts with a number of customers and suppliers. This includes the DfT loan facility of £30.875bn, which alongside the disposal of certain property assets,

Network Rail will draw upon to deliver its investment activities in the next 12 months. In addition Network Rail is able to achieve further efficiencies and deferral of costs as required to live within the funding available. Business plans and financial models are used to project cash flows and monitor financial risks and liquidity positions, forecast funding requirements and other key financial ratios, including those relevant to our network licence. Analysis is undertaken to understand the resilience of the group and its business model to the potential impact of the group's principal risks, or a combination of those

risks. This analysis takes account of the mitigating actions realistically to be taken to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk management and internal control systems, as described on pages 39 to 45, are paid particular attention to.

As a consequence, the directors believe that the group is well placed to manage its business risks.

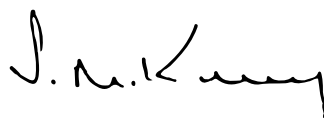
After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future.

For this reason and on the basis of the above, the Board considers it appropriate for the group to adopt the going concern basis in preparing its annual report and accounts.

Post balance sheet events

- Except as disclosed above, there have not been any significant post balance sheet events, whether adjusting or non-adjusting.

The directors' report was approved by the Board on 27 June 2018 and is signed on its behalf by:



Stuart Kelly,
Group general counsel and company secretary
27 June 2018